

NIP AND TUCK: THE IMPACT OF CURRENT COST CUTTING EFFORTS ON POSTAL SERVICE OPER- ATIONS AND NETWORK

HEARING

BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE,
POSTAL SERVICE, AND THE DISTRICT
OF COLUMBIA

OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

MAY 20, 2009

Serial No. 111-6

Printed for the use of the Committee on Oversight and Government Reform



Available via the World Wide Web: <http://www.gpoaccess.gov/congress/index.html>
<http://www.house.gov/reform>

U.S. GOVERNMENT PRINTING OFFICE

50-809 PDF

WASHINGTON : 2009

For sale by the Superintendent of Documents, U.S. Government Printing Office
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NIP AND TUCK: THE IMPACT OF CURRENT COST CUTTING EFFORTS ON POSTAL SERV- ICE OPERATIONS AND NETWORK

WEDNESDAY, MAY 20, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL
SERVICE, AND THE DISTRICT OF COLUMBIA,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen F. Lynch (chairman of the subcommittee) presiding.

Present: Representatives Lynch, Chaffetz, Norton, Clay, Connolly, and Bilbray.

Staff present: William Miles, staff director; Marcus A. Williams, clerk/press secretary; Margaret McDavid, detailee; Aisha Elkheshin, intern; Dan Blankenburg, minority director of outreach and senior advisor; Adam Fromm, minority chief clerk and Member liaison; Howard Denis, minority senior counsel; and Alex Cooper, minority professional staff member.

Mr. LYNCH. Good morning. The Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia hearing will now come to order. I want to welcome Ranking Member Chaffetz and members of the subcommittee, hearing witnesses, and all those in attendance.

This is the second of what will be a series of hearings to examine the status of the Postal Service's cuts in operations and services, as well as short- and long-term plans to reduce network costs and improve efficiency.

The Chair, the ranking member, and the subcommittee members will each have 5 minutes to make opening statements, and all Members will have 3 days to submit statements for the record.

Hearing no objections, that is so ordered.

Let me make a brief opening statement. I recognize myself for 5 minutes.

Less than 2 months ago, this subcommittee held a hearing on the financial condition of the Postal Service, and the news at that time was less than encouraging. In fiscal year 2008, the Postal Service lost \$2.8 billion as it confronted record drops in mail volume and demand for services. Since our last hearing, the Postal Service's financial picture has gone from bad to worse. Just halfway through this current fiscal year, the Postal Service has already experienced

a loss of \$2.3 billion, which is just shy of its total losses from last year.

Despite plans to cut costs this year by \$5.9 billion, which is ambitious, the Postal Service officials still anticipate losing a total of \$6.4 billion by year's end, primarily due to the current economic recession and its negative impact on mail volume. Electronic diversion of the mail has also contributed greatly to mail volume declines as well, with more and more folks paying bills online and using emails instead of sending letters.

The contraction of economic activity, particularly in the housing and financial sectors, has resulted in a sizable reduction in the volume of standard mail and has even caused some of our Nation's foremost newspapers and periodicals to move entirely to an online format.

To help close the gap between costs and revenue, we all realize that the Postal Service will have to make some very, very difficult decisions in order to improve the organization's financial condition. With the reduction in mail volume, the Postal Service no longer needs much of its existing infrastructure and is therefore in the process of examining its network of facilities, as well as other processing and delivery capacities. For instance, the Postal Service recently announced facility consolidations, district office closures, and realignment of letter carrier routes as part of an ongoing effort to reduce costs and achieve savings.

I have asked this morning's witnesses to address the impact of these and other measures on employees and customers, and to discuss whether these actions go far enough, and also to explore additional options that the Postal Service has at its disposal to lower expenses, to increase productivity, and ultimately achieve some level of savings.

Today's hearing is intended to help us learn from our witnesses how many of these recent cuts employed by the Postal Service have impacted overall operations, as well as customer service and the future viability of the Postal Service. The subcommittee is also interested in hearing from our witnesses any additional opportunities or ideas they may have to further reduce the Postal Service's overhead and costs.

The news we are faced with at this hearing is dire, and these cuts alone may not be enough to help return the Postal Service to financial solvency. The Postmaster General has discussed the possibility of moving to a 5-day mail delivery schedule, and we may be at a point where we need to seriously consider what that option would require by researching possible associated savings, making sure we have the right assessment as to what that move might involve. We also need to consider the service impacts by such a decision, and I understand that many of the members of this committee and members of the public do not believe that this is a decision that should be reached lightly.

As we look toward the future after the possible enactment of some measure of financial relief for the Postal Service and beyond the current economic recession, the Postal Service finds itself having to evolve and realign its business model in order to meet the needs and service requirements of the 21st century service. As Postal Service officials continue to make difficult decisions to cut

costs, there will be, of course, consequences. It is the job of this subcommittee to ensure that these decisions are well thought out and designed, since many of the good men and women at the Postal Service, as well as postal customers, are being asked to sacrifice in these tough economic times.

I am looking forward to a fruitful discussion on this timely topic. Once again, I want to thank all of our witnesses for their attendance and willingness to help this subcommittee with its work, and we look forward to your input this morning.

[The prepared statement of Hon. Stephen F. Lynch follows:]

STATEMENT OF CHAIRMAN STEPHEN F. LYNCH

**SUBCOMMITTEE ON FEDERAL WORKFORCE
AND POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA HEARING ON**

**“NIP AND TUCK:
THE IMPACT OF CURRENT COST CUTTING EFFORTS ON POSTAL
SERVICE OPERATIONS AND NETWORK.”**

WEDNESDAY, MAY 20, 2009

LESS THAN TWO MONTHS AGO, THIS SUBCOMMITTEE HELD A HEARING ON THE FINANCIAL CONDITION OF THE POSTAL SERVICE AND THE NEWS AT THAT TIME WAS LESS THAN ENCOURAGING. IN FISCAL YEAR 2008 THE POSTAL SERVICE LOST \$2.8 BILLION AS IT CONFRONTED RECORD DROPS IN MAIL VOLUME AND DEMAND FOR SERVICES. SINCE OUR LAST HEARING, THE POSTAL SERVICE’S FINANCIAL PICTURE HAS GONE FROM BAD TO WORSE. JUST HALFWAY THROUGH THE CURRENT FISCAL YEAR, THE POSTAL SERVICE HAS ALREADY EXPERIENCED A LOSS OF \$2.3 BILLION, WHICH IS JUST SHY OF ITS TOTAL LOSS FROM LAST YEAR. DESPITE PLANS TO CUT COSTS THIS YEAR BY \$5.9 BILLION, POSTAL OFFICIALS STILL ANTICIPATE LOSING A TOTAL OF \$6.4 BILLION BY YEAR’S END--PRIMARILY DUE TO THE RECESSION AND ITS NEGATIVE IMPACT ON MAIL VOLUME. ELECTRONIC DIVERSION OF THE MAIL HAS ALSO CONTRIBUTED GREATLY TO MAIL VOLUME DECLINES, WITH MORE AND MORE FOLKS PAYING BILLS ONLINE AND USING E-MAIL INSTEAD OF SENDING LETTERS. THE CONTRACTION OF ECONOMIC ACTIVITY, PARTICULARLY IN THE HOUSING AND FINANCIAL SECTORS, HAS RESULTED IN A SIZABLE REDUCTION IN THE VOLUME OF STANDARD MAIL AND HAS EVEN CAUSED SOME OF OUR NATION’S FOREMOST NEWSPAPERS AND PERIODICALS TO MOVE ENTIRELY ONLINE.

TO HELP CLOSE THE GAP BETWEEN COSTS AND REVENUE, WE ALL REALIZE THAT THE POSTAL SERVICE WILL HAVE TO MAKE SOME VERY DIFFICULT DECISIONS IN ORDER TO IMPROVE THE ORGANIZATION’S FINANCIAL CONDITION. WITH THE REDUCTION IN MAIL VOLUME, THE POSTAL SERVICE NO LONGER NEEDS MUCH OF ITS EXISTING INFRASTRUCTURE AND IS, THEREFORE, IN THE PROCESS OF EXAMINING ITS NETWORK OF FACILITIES, AS WELL AS OTHER PROCESSING AND DELIVERY CAPACITIES. FOR INSTANCE, THE POSTAL SERVICE RECENTLY ANNOUNCED FACILITY

CONSOLIDATIONS; DISTRICT OFFICE CLOSURES; AND REALIGNMENT OF LETTER CARRIER ROUTES AS PART OF AN ONGOING EFFORT TO REDUCE COSTS AND ACHIEVE SAVINGS.

I'VE ASKED THIS MORNING'S WITNESSES TO ADDRESS THE IMPACT OF THESE AND OTHER MEASURES ON EMPLOYEES AND CUSTOMERS; DISCUSS WHETHER THESE ACTIONS GO FAR ENOUGH; AND ALSO EXPLORE WHAT ADDITIONAL OPTIONS THE POSTAL SERVICE HAS AT ITS DISPOSAL TO LOWER EXPENSES, INCREASE PRODUCTIVITY, AND ULTIMATELY ACHIEVE SOME LEVEL OF SAVINGS. TODAY'S HEARING IS INTENDED TO HELP US LEARN FROM OUR WITNESSES HOW MANY OF THE RECENT CUTS EMPLOYED BY THE POSTAL SERVICE HAVE IMPACTED OVERALL OPERATIONS, CUSTOMER SERVICE, AND THE FUTURE VIABILITY OF THE POSTAL SERVICE. THE SUBCOMMITTEE IS ALSO INTERESTED IN HEARING FROM OUR WITNESSES ANY ADDITIONAL OPPORTUNITIES OR IDEAS THEY MAY HAVE TO FURTHER REDUCE THE POSTAL SERVICE'S OVERHEAD AND COSTS.

THE NEWS WE ARE FACED WITH IS DIRE AND THESE CUTS ALONE MAY NOT BE ENOUGH TO HELP RETURN THE POSTAL SERVICE TO FINANCIAL SOLVENCY. THE POSTMASTER GENERAL HAS DISCUSSED THE POSSIBILITY OF MOVING TO A 5-DAY MAIL DELIVERY SCHEDULE AND WE MAY BE AT OR NEAR THE POINT WHERE WE NEED TO SERIOUSLY CONSIDER THIS OPTION, BY RESEARCHING POSSIBLE ASSOCIATED SAVINGS AND SERVICE IMPACTS. I UNDERSTAND THAT THIS IS NOT A DECISION THAT WILL BE MADE LIGHTLY.

AS WE LOOK TOWARD THE FUTURE, AFTER THE POSSIBLE ENACTMENT OF SOME MEASURE OF FINANCIAL RELIEF FOR THE POSTAL SERVICE AND BEYOND THE CURRENT ECONOMIC RECESSION, THE POSTAL SERVICE FINDS ITSELF HAVING TO EVOLVE AND REALIGN ITS BUSINESS MODEL IN ORDER TO MEET THE NEEDS AND SERVICE REQUIREMENTS OF THE 21ST CENTURY SERVICE. AS POSTAL SERVICE OFFICIALS CONTINUE TO MAKE DIFFICULT DECISIONS TO CUT COSTS, THERE WILL, OF COURSE, BE CONSEQUENCES. IT IS THE JOB OF THIS SUBCOMMITTEE TO ENSURE THAT THESE DECISIONS ARE WELL THOUGHT OUT AND DESIGNED, SINCE MANY OF THE GOOD MEN AND WOMEN OF THE POSTAL SERVICE, AS WELL AS POSTAL CUSTOMERS, ARE BEING ASKED TO SACRIFICE IN THESE TOUGH ECONOMIC TIMES.

I AM LOOKING FORWARD TO A FRUITFUL DISCUSSION ON THIS TIMELY TOPIC. ONCE AGAIN, I THANK ALL OF THE WITNESSES FOR THEIR INPUT THIS MORNING.

Mr. LYNCH. I now want to extend 5 minutes for an opening statement from our ranking member, Mr. Chaffetz, from Utah.

Mr. CHAFFETZ. Thank you, Mr. Chairman.

And thank you all for being here. We do appreciate your dedication and commitment, and taking time to be here.

Rather than read this opening statement, I would ask unanimous consent to simply submit my comments into the record, if that is OK with you, Mr. Chairman.

Mr. LYNCH. Without objection, so ordered.

Mr. CHAFFETZ. Again, thank you, and I look forward to listening to your testimony and having some interaction with some questions.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Jason Chaffetz follows:]

**Opening Statement of Jason Chaffetz,
Ranking Member
Subcommittee on Federal Workforce, Postal
Service,
and the District of Columbia
May 20, 2009**

I thank you, Mr. Chairman for holding this hearing today. Back on March 25th, we held a hearing on restoring the financial stability of the United States Postal Service. Today we will revisit some of those issues discussed to see what sort of progress is being made on their cost-cutting efforts. Currently, the Postal Service is either exploring or implementing new plans to save the Postal Service money and keep it viable in a 21st century world which is seeing a steady decrease in the use of hard copy media. The Postal Service has reduced staffing by 58 million man-hours, including 1,400 management positions which have been cut at nearly 400 facilities across the country.

There has also been some discussion regarding cutting delivery days from 6 to 5 days, and while there are those who are opposed to this, or in the case of the Postal Regulatory Commission, believe the savings will be less than predicted by USPS, there is no doubt that cutting service days will save some money. The question which must be answered is how much volume will we lose as a result of cutting a day, and all we can do at this point is guess.

These are impressive cuts, but given that the Postal Service saw a larger decline in volume this past year than ever before, including the Great Depression, and given the second quarter results which have just come in, these cuts are essential—the budgetary projections are even worse for this year.

One thing is clear—the Postal Service is rapidly approaching a “free-fall” state of operation, and will soon be unable to sustain itself without quick action. The cuts and trims being made at the Postal Service currently, which we will be discussing today, are critical to its future operations and profitability. However, none of them is nearly as significant as H.R. 22, a bill introduced by my deputy Ranking Member, John McHugh, and the former Chairman of this Subcommittee, Danny Davis. This is a bipartisan bill I am proud to cosponsor along with 304 of my colleagues.

Given the current economic climate, it is not surprising that many people initially were wary of this bill, assuming that, like so many bills introduced these days to help out troubled businesses, this was yet another bailout. This could not be further from what this bill proposes to do. This bill would allow the Postal Service to pay their debts out of the Postal Service Retiree Benefits Fund and would defer for 8 years the forward funding of their retirement system.

In fact, without this bill, a very costly taxpayer-funded bailout is precisely what we will be discussing. When we say “costly,” consider that the Postal Service is the second only to Wal-Mart in being the largest employer in the nation.

The best way to think about this bill is to imagine you are in a hole up to your chest. You can get out of that hole if you use your arms and push yourself out. But before you can do this, you must ask Congress if you can use your arms. The cuts being made at the Postal Service are essential for its future, but if something like H.R. 22 isn’t done soon, they will be irrelevant. It is important to note that had this aggressive pre-funding of retirement not been required by the Office of Management and Budget during the negotiations for the Postal Accountability and Enhancement Act of 2006, the Postal Service would have shown a profit in fiscal year 2008.

I look forward to hearing the status of current cost cutting efforts in the United States Postal Service, but recognize that without passing legislation to address the \$5.5 billion annual cost of pre-funding its retirement system, these efforts will be moot.

Mr. LYNCH. Thank you.

The Chair now recognizes Ms. Holmes Norton, the delegate from the District of Columbia, for 5 minutes for an opening statement.

Ms. NORTON. Thank you very much, Mr. Chairman. Mr. Chairman, you have done the public an important service by holding this hearing. We don't want the Post Office to disintegrate before our very eyes, and this may happen. The last thing the Postal Service needed was even a mild recession. This is a structural event and I believe we all have to wake up and realize it. Institutions will not be as they were when this recession is over; some institutions will not exist.

Mr. Chairman, you said we have to look at whether or not the nip and tuck—I congratulate the committee for the use of really germane language—whether the nip and tuck, fun language, of course, but it does drive home what the Postal Service has been forced into. Everybody is doing it, but not every institution was nearly experiencing the winds from all sides. This institution has been experiencing a hurricane, and it has long been in this hurricane, and much of it not of its own making; it has to do with huge changes in our society.

But the current recession did occur and once again, I think, calls into question the very business model that we have before us. The only analogy I can think of that is experiencing this kind of disintegration before our very eyes are newspapers. Nobody thinks that they are going to survive in the form that they exist. Everybody knows they are essential. Imagine getting your news from blogs and the Internet and kind of picking it all up and trying to put it together. They serve an important function. Well, they have to find another way to do it because the economy, long before the recession, was bidding them goodbye.

No institution has had a deeper long-term decline. No institution that I can think of has had a deeper long-term decline than the Postal Service. So, Mr. Chairman, I would like to hear from the Postal Service this morning something other than nips and tucks. I would like to know whether there is any new thinking going on at the Postal Service. For example,—I don't even think this is a huge change, but it is a real change—I am willing to look at something that I would not have thought about when I first came to Congress, a 5-day delivery.

I don't think we can say to the Postal Service, hey, make sure you deliver the mail the way you did—and I am a third generation Washingtonian. You all have done a fine job when my great-grandfather came to Washington, walked off of a slave plantation in Virginia, and the Postal Service was doing just fine then, and it continued to do just fine for generations. What has happened to the Postal Service is not the fault of the Postal Service, but the Postal Service has to find a new way to do the business of guaranteeing the delivery of essential mail to the people of this country and the world.

Thank you very much, Mr. Chairman.

Mr. LYNCH. Thank you.

The Chair now recognizes the gentleman from Virginia, Mr. Connolly, for 5 minutes.

Mr. CONNOLLY. Thank you, Mr. Chairman. I want to thank you for holding these hearings. I am going to have to go to a markup of the State Department authorization legislation all day in the Foreign Affairs Committee, but I thought this was so important, I wanted to come briefly for the beginning.

The future of the Post Office is at stake. The future of how Postal Service is delivered to our constituents is at stake, and this Congress needs to listen carefully and we are going to have to work together on creative solutions. I agree with Ms. Norton that it may mean that the Post Office of our grandparents may not look like the Post Office for our grandchildren as we move out to the future. We have to create a business model for the Post Office that is viable as we look to changes in technology, we look to changes in the communication media, we look to changes in the marketplace.

So I am going to be very interested in getting a report on the testimony today and again, Mr. Chairman, I want to thank you for taking so much time to be so thorough. We have three great panels today and I know it is going to be very informative. I think if the public really understood what was at stake, we would have to have this hearing in the Cannon Caucus Room, because, as Ms. Norton said, the future is not going to look like the past with respect to postal services.

Thank you, Mr. Chairman.

Mr. LYNCH. I thank the gentleman.

Just to explain the process here, there are a number of hearings going on at the same time. I know that Ms. Holmes Norton, Mr. Connolly, and our ranking member are all due in other hearings as well, so they will come in and out as others arrive as well. But that is just the nature of things.

We do have a custom here in this committee to swear all witnesses before they provide testimony, so may I please ask you to rise and raise your right hands?

[Witnesses sworn.]

Mr. LYNCH. Let the record indicate that all of the witnesses have signaled or answered in the affirmative.

As always, your entire written statement will be entered into the record. Just as a matter of protocol, the green light on that little box before you will indicate the beginning of a 5-minute period to summarize your statement. It will turn yellow with about a minute to go, and then the red light indicates your time for statements has expired.

I will do a brief introduction of the first panel before we hear testimony.

On our first panel, Mr. William Galligan is the senior vice president for operations for the U.S. Postal Service. He is responsible for the organization's engineering facilities, delivery, network operations management, and post office operations. Earlier in his career, Mr. Galligan served as vice president of the retail and delivery operations and oversaw the retail and delivery function of the Nation's post offices.

Mr. John Waller is director of the Office of Accountability and Compliance at the Postal Regulatory Commission. Mr. Waller leads the Commission's analysis of Postal Service price proposals and oversees technical support for studies, including measurement of

the Postal Service's performance and impact assessments of major Postal Service network reorganizations.

Mr. Phillip Herr is the Director of the Physical Infrastructure Team at the Government Accountability Office. Since joining GAO in 1989, Mr. Herr has managed reviews of a broad range of domestic and international concerns. His current portfolio focuses on programs at the Postal Service and the Department of Transportation.

Welcome, gentlemen.

Mr. Galligan, you may begin with an opening 5 minute statement. Thank you.

STATEMENTS OF WILLIAM P. GALLIGAN, SENIOR VICE PRESIDENT, OPERATIONS, U.S. POSTAL SERVICE; JOHN WALLER, DIRECTOR, OFFICE OF ACCOUNTABILITY AND COMPLIANCE, POSTAL REGULATORY COMMISSION; AND PHILLIP HERR, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF WILLIAM P. GALLIGAN

Mr. GALLIGAN. Thank you, Mr. Chairman. Good morning, Chairman Lynch, Ranking Member Chaffetz, and members of the subcommittee. As you know, the Postal Service is experiencing one of the most severe economic challenges in its 234 year history. Due primarily to the downturn in the economy, we have seen mail volume fall by 32 billion pieces, or 15 percent, since 2007. That represents a revenue decline of \$12 billion.

At the same time, we have experienced a continuing expansion of our delivery network, which will have grown to serve 2 million new addresses by the end of 2009. Our projections call for a loss of \$6.5 billion this fiscal year, with a likely cash shortfall of \$1.5 billion. And we not expect any improvement next year.

As the total mail volume falls, we are also experiencing a long-term shift in mail use patterns. Over the last decade, mailers have been reducing their use of higher revenue first class mail, and as more mail is entered closer to its delivery point, the demand for end-to-end service has decreased.

The combination of these factors have a profound effect on our business model. In 2000, we delivered an average of 5.9 pieces of mail to every address. Today, that has fallen to 4.7 pieces, a decline of 20 percent. Revenue per delivery obviously tracks this trend. We have been extremely focused on narrowing the gap by cutting costs without affecting service, and at the midpoint of our fiscal year, we are on track to achieve our goal of eliminating \$5.9 billion in base costs.

However, we face limits on our ability to reduce some costs. The enactment of the 2006 postal law requires us to pre-fund retiree health benefits, increasing our annual costs by more than \$5 billion. Only new legislation can reduce this obligation, which is unsustainable in today's economy. That is why we strongly support the passage of H.R. 22, which would result in annual savings of about \$2 billion.

But the fact remains that all of these steps would be insufficient to return us to solvency. They will not fully close our budget gap

of \$12 billion. We are experiencing a long-term economic problem that requires a structural solution.

Over the past several years, we have taken significant steps in this direction, streamlining our network to accommodate changing needs and new technology, consistent with the expectations of the law. Throughout each of these efforts, service has continued to improve, reaching today's high level of performance. We have closed 58 airport mail centers and 50 remote encoding centers. We have begun an initiative to transform our 21 bulk mail centers into more efficient network distribution centers.

While we have made some progress in consolidating operations to reduce excess capacity at our central mail processing plants, this has generally been met by strong local resistance, one of the chief barriers we face in the critical rightsizing of our network. Your understanding and support of our efforts would help to reduce these barriers.

We are also examining the operational needs at many retail and delivery facilities. Delivery volumes continue to decline, sales and revenue are down, and almost 30 percent of our retail transactions have moved from our lobbies to our Web site or to alternate access locations. There is the potential for substantial savings through consolidation at some of our over 3,100 stations and branches in cities of all sizes.

Beyond the actions we have taken and those we plan to take, there is a need to make additional hard choices and tradeoffs to adjust the sharply declining mail volume so that we can finance universal service in the long-term. In considering our options, everything should be on the table. With the diminished demand for mail services, today's network requirements are beyond our financial means, but the law does not permit us to change the frequency of mail delivery. Providing the Postal Service with the ability to reduce delivery from 6 days to 5 days is an appropriate response to the sobering reality of our fiscal challenges, and one we only consider reluctantly.

We have engaged our customers on this issue. Because this change would have an effect on service, it is important to understand the needs as we analyze operating in a different delivery environment. Looking ahead, the Postal Service will continue to implement the cost reduction and efficiency programs I have highlighted, while we stay focused on improving service.

Mr. Chairman, members of the subcommittee, I appreciate your interest in creating a stronger, yet leaner, Postal Service and look forward to working with you to achieve this goal. I would be pleased to answer any questions you have. Thank you.

[The prepared statement of Mr. Galligan follows:]



**STATEMENT OF
WILLIAM GALLIGAN, SENIOR VICE PRESIDENT, OPERATIONS
BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE,
AND THE DISTRICT OF COLUMBIA
OF THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES**

MAY 20, 2009

Good morning, Mr. Chairman and members of the Subcommittee. I appreciate the opportunity to speak with you today about the Postal Service and its network—one of the largest, most complex, and most effective logistics systems in the world. Unfortunately, the effects of today's business environment have undermined our ability to finance the network at its current levels.

The purpose of my comments today is to provide you with an understanding of the causes of the situation we are facing; the actions we are taking to adjust to a dramatically changed economic landscape; and the help we are seeking from Congress as we work to reduce the huge gap between our network costs and steep and continued revenue declines.

In providing this information, I will also address the questions you have posed regarding the impact of current cost-cutting efforts on the Postal Service's operations and network:

- What are the hard choices and tradeoffs that need to be considered as mail volumes decline significantly?
- What options should be considered to overcome barriers and facilitate the Postal Service in making significant progress in rightsizing its networks?
- How much cost does the Service need to take out of its network and operations to remain solvent and how will it be achieved?
- What impact, if any, will cuts have on service?

I will begin by bringing you up to date on the financial condition of the Postal Service. As the Postmaster General testified before this panel in March, the Postal Service is in a precarious financial condition, driven primarily by the lengthiest and deepest economic recession in generations, and compounded by the statutory requirement to prefund retiree health benefits at an accelerated pace.

Since the last hearing, we have posted our financial results for quarter 2, which ended on March 31. Our situation has not improved. Total mail volume fell by 14.7 percent, with an accompanying revenue decline of 10.5 percent compared to the same period last year. That contributed to a second quarter loss of almost \$2 billion. We anticipate similar losses for the next two quarters and, even with the price changes that went into effect on May 11, we are projecting a loss of more than \$6 billion for this fiscal year.

This year, only 180 billion pieces of mail will move through our system, a decline of 32 billion pieces from the 212 billion pieces we handled in fiscal year 2007, which ended just before the onset of the recession. This mail volume loss resulted in a revenue decline of \$12 billion, about one-sixth of our annual revenue. Over the same two year period, the number of addresses we serve will increase by more than two million.

In virtually any other industry, this type of income gap could be addressed through price increases, offering new product lines, strict inventory and production controls or changes in service availability. For the Postal Service, with a legal requirement to maintain six-day mail delivery, with significant limits on our authority to develop new products, and with price caps that apply to 90 percent of our products, these are not options that are available to us.

But volume continues to fall. Revenue continues to decline. The mail mix continues to change. And networks costs continue to rise. I am proud of the efforts of our managers in stepping up to this challenge. They have maintained an unwavering focus on cost containment and, at the same time, they have retained their commitment to service excellence, bringing on-time delivery performance to the highest levels in the delivery business.

For quarter two, 96 percent of First-Class Mail with a next-day service commitment was delivered on time—one of the highest national scores we have ever recorded. Performance in other service categories was similarly strong. The special significance of our most recent service scores is that they represent new and more-exacting service standards and new, more robust measurement systems. They were developed and implemented through consultation with our customers and the Postal Regulatory Commission, in response to the requirements of the Postal Act of 2006.

Service scores have continued to increase as the nature of our business—and its financial foundation—have undergone marked changes. When it became apparent in 2002 that a changing mail mix, marked by customer substitution of Standard Mail for First-Class Mail, would inhibit revenue growth, we embarked on an ambitious program to remove \$1 billion in base costs annually. We doubled that goal to \$2 billion in 2008, as the declining economy had an enormous, negative impact on our finances, exceeding the significant but predictable and manageable effects of changing mail-use patterns.

Throughout the organization, we have eliminated a cumulative total of more than \$30 billion in base costs over the last seven years, primarily through operational initiatives. Last year, we removed more than 50 million workhours from our system. We aligned staffing and scheduling to the greatest extent possible to better match changing operational needs.

This year, with volume falling more sharply and quickly than at any other time since the Great Depression, we increased our efforts. We have imposed a hiring freeze. More than 9,000 employees have recently taken voluntary early retirement opportunities, an offer that is being extended to 150,000 eligible employees. Through attrition, we have experienced a reduction of five percent of our career workforce—more than 34,000 employees—in the last year alone. We expect that figure to grow to 43,000 by the end of this year.

We are closing six of our 80 District administrative offices. We have instituted complement reductions in administrative units at Headquarters, Area, and District offices, while also reducing supervisory positions in mail-processing operations.

For 2009, our field managers have committed to achieving a reduction of 100 million workhours, and are on track to do so. By the end of March, the midpoint of our fiscal year, we had achieved more than half that goal—58 million workhours. We are well on the way to meeting an unprecedented cost-reduction target of \$5.9 billion.

That is an impressive figure, but measured against a budget gap of over \$12 billion, it would be necessary for the Postal Service to achieve more than \$6 billion in additional cost reductions to simply break even and achieve a state of basic solvency this fiscal year. But with projections calling for continued decline in mail volume and revenue, at least through fiscal year 2010, this would not provide us with a sufficient cushion to absorb the additional losses we can expect next year.

The Postal Service is taking unprecedented steps to bridge the widening gap between costs and revenue. But without the assistance of Congress, our efforts will be stymied by statutory cost requirements that, while sustainable in a more positive economic climate, are simply beyond our means today.

Before seeking the assistance of Congress, we recognize that it is imperative that the Postal Service continues to intensify its cost-reduction efforts. Beyond those I have mentioned, we have also been examining and modifying the various elements of our network itself. Because they are the largest elements of our system, adjusting our networks affords us the greatest opportunity to align costs with service and operational needs. More than 75 percent of the \$5.9 billion in costs that the Postal Service will eliminate this year—\$4.5 billion—will be achieved by our operations group. Every other organization within the Postal Service is also making important contributions to this goal.

The Postal Service's network is the operational heart of our universal service mandate. The service we provide is dependent on the close coordination, efficient operation and, above all, adequate financing of every element of an extremely complex mail collection, processing, transportation, and delivery system.

The breadth of our network—and the requirements it fulfills—are truly remarkable. Each service day it must be prepared to provide mail delivery to approximately 150 million households and businesses in every neighborhood, town, and city in America—as well as service around the globe—with product and service options that exceed those of any other delivery provider. It is supported by a network of 37,000 Post Offices, stations, and branches; approximately 400 processing facilities; 200,000 vehicles traveling more than one-billion miles each year; and the career employees who skillfully knit every element of this vast system together.

Our network has never been static; rather, it has developed, grown, contracted, and adapted in response to changes in transportation, demographics, technology, and mail volume, as well as the requirements of service, cost, efficiency, and public policy.

Our efforts at improving network efficiency have been concentrated on five distinct elements of our system: Remote Encoding Centers; Airport Mail Centers; Area Mail Processing initiatives; Bulk Mail Centers; and retail services.

Our Remote Encoding Centers were established in 1994 as a temporary solution to automate the processing of mail with handwritten addresses, which generally could not be read by an earlier generation of automated sorting equipment. Today, 95 percent of addresses can be read by our equipment. This has allowed us to phase out 50 of the original 55 remote-encoding sites. By the end of the year, we will deactivate three more sites, reducing the number of remote-encoding centers to two.

Over the last several years, changing transportation and operational requirements have made it possible to withdraw operations from 58 Airport Mail Centers, allowing us to close these facilities and eliminate the high cost of operating facilities on airport grounds. The need for these facilities was reduced as new air transportation contracts placed more mail on the flights of dedicated shippers—including FedEx and UPS, which operate their own air-cargo hubs—rather than commercial passenger carriers.

We also took a hard look at our actual transportation use and found that much of the mail that had been moving by air could meet its service standards through less-expensive ground transportation. By reducing our need for air carriage, we also reduced our need for Airport Mail Centers. Throughout this process, whether moved on the ground or in the air, mail continued to achieve record service performance.

Our efforts also include the consolidation of some duplicative mail-processing operations through our Area Mail Processing activities. This supports improved efficiency and a greater return on our processing-equipment investments—which generally were made with an eye toward increased, rather than decreased, mail volume. The dramatic levels of mail volume decline we have experienced over the last 18 months have elevated processing consolidations from an important priority to an absolute urgency in our efforts to manage through one of the most severe financial crises we have ever faced.

When today's self-supporting Postal Service was created by the Postal Reorganization Act of 1970, more than 2,000 facilities served as our primary, outgoing mail-processing locations. Today, that number has been reduced to approximately 400, automated, centralized facilities. These are separate and distinct from our network of local, retail Post Offices. Most mail is now processed at these centralized mail processing facilities, an operational keystone for more than 30 years.

In addition, a growing amount of mail now enters our system far closer to its final delivery point, permitting it to bypass many steps in our processing system. Area Mail Processing has contributed to better cost-management, more efficient routing and transportation, while improving service.

As a matter of prudent business practice, we continually review our processing needs and capacities to determine where it may be more efficient to combine similar work from multiple locations at a single location, without adversely affecting service. This generally involves the relocation only of a single aspect of the work performed at a particular sorting facility, generally the processing of locally generated, single-piece First-Class Mail. In a far smaller number of cases operational needs and unique conditions may support the closing of an underutilized facility by fully merging its operations with another.

The primary driver of Area Mail Processing consolidation activities over the last several years has been the steady decline of single-piece First-Class Mail letters as consumers and businesses shift a larger number of transactions and correspondence from hard-copy mail to electronic media. Even before factoring in the effects of the recession, volume in this product category had fallen by 20 percent between 1998 and 2005. By 2008, it had fallen by almost 33 percent, or one-third of its total volume. Looked at in a slightly different way, processing capacity for this mail, on average, exceeds processing needs by 50 percent.

From a business perspective, it is vital that we pursue these consolidation opportunities. Responsibility and accountability to our customers—who finance our system through the purchase of postal products and services, not through taxes—demands no less. Necessary processing consolidations will help us to contain costs and increase efficiency, both necessary to our ability to affordably maintain strong service performance.

A well-defined Area Mail Processing policy, developed to support consistency and a transparent, fact-based decision-making process for consolidations, guides us in our efforts to maximize operational efficiency and capitalize on the economies of scale associated with advances in automated mail processing. Our planning process includes strict adherence to the provisions of the collective-bargaining agreements with our unions, as well as early and open communications with community representatives, local and state elected officials, local customers and mailers, and the media. This assures that a decision to proceed with a consolidation is based on sound business rationale and that overall service levels are maintained or improved.

As the need for processing efficiencies has become more pressing, the Postal Service has been encouraged to continue its efforts to streamline its network. The issue of overcapacity in our processing network was addressed by the bipartisan President's Commission on the United States Postal Service when it issued its final report, "Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service," in 2003. The Commission found that, "... the postal network as it exists today is far too sprawling and cumbersome for the nation's needs," and recommended that it grow "smaller and stronger."

The Commission's recommendation is echoed in the provisions of the Postal Accountability and Enhancement Act, which was enacted by Congress in 2006, which states, "the Postal Service has more facilities than it needs and the streamlining of this distribution network can pave the way for the potential consolidation of sorting facilities and the elimination of excess costs." The Act is clear in the related goal it has set for the Postal Service, noting that, "Congress strongly encourages the Postal Service to expeditiously move forward in its streamlining efforts."

Both the Government Accountability Office and the Postal Regulatory Commission, independent federal entities with oversight responsibilities for the operations of the Postal Service, recognize the benefits of our consolidation strategy. It is a strategy we will continue to follow.

In inviting me to testify at today's hearing, you asked me to identify the barriers that exist to making significant progress in "rightsizing our networks." I will be candid. One of the primary barriers has been strong local opposition to our efforts to consolidate processing activities, despite the fact that both business needs and the law require that we eliminate excess network capacity and costs. As a result, our progress in this area has not been as substantial as it has for other network initiatives.

The strength of our overall network is dependent on our ability to achieve efficiencies within each element of the network. That is a goal that becomes infinitely more difficult to reach if we are not permitted to objectively review operations at a particular location and act on the results of that review. Ultimately, a more efficient network benefits our employees, our customers, and every community served by the Postal Service.

Over the last five years, we have implemented AMP consolidations at 11 locations. The savings have been considerable, service trends have been positive, and no affected career employees have been involuntarily separated from the Postal Service.

While we had been prepared to examine operations at a far larger number of sites during this period, our program was suspended for approximately 18 months as the Government Accountability Office conducted a study of elements of our consolidation process at the request of Congress. Since the GAO issued its report, just before the beginning of this fiscal year, finding that the Postal Service had improved its AMP process, we have initiated 32 Area Mail Processing feasibility studies. Four have been approved, with combined projected annual savings of \$15 million. A number of others are still undergoing review.

Looking ahead, we believe there is a real potential for over \$100 million in annual cost reductions through system-wide AMP consolidations. I ask for your understanding and support of this initiative as we move forward.

As we intensify efforts to improve operational efficiency, we have also closely considered the role of our 21 Bulk Mail Centers in today's network. This element of our network, established in 1971, primarily distributes parcel post, media mail, standard mail and periodicals in bulk form. First-Class Mail, Priority Mail, and Shipping Services products are handled through other network facilities and transportation systems.

Changes in mail preparation and entry by commercial mailers over the past several decades have resulted in underutilization of the existing BMC network. In 2007, we considered outsourcing some BMC operations. But as we experience sustained and unprecedented decline in mail volume, making it difficult to predict future volumes, it is apparent that this is not the time to outsource an activity of this size and scope. As a result, BMC operations will continue to be performed by Postal Service employees.

We notified our unions of this decision in March, informing them at the same time that we would revamp the BMC network, transforming these facilities into Network Distribution Centers. This will significantly improve the efficiency of the Bulk Mail network through greater levels of shipment consolidation, contributing to more effective utilization of the cargo capacity of mail containers and trucks. This will also allow us to move a larger amount of mail more deeply into the system, earlier in the process, by reducing and eliminating expensive and time-consuming intermediate sort points and transportation moves.

We are also examining the space requirements at many of our retail and delivery facilities. This includes considering the effects of changes in the level of customer retail activity at postal facilities, and the opportunities for consolidating carrier operations where improved processes and equipment, as well as reduced workload, make this possible.

New technology and new services have made it possible for customers to perform many of the most popular postal transactions without the need to visit their local postal retail facilities. This includes the increased transactional ability of our popular website, *usps.com*, visited by almost 30 million customers each month.

Through *usps.com*, customers can have their mail forwarded or held; they can print postage-paid mailing labels; they can purchase postage stamps; they can request next-day package pickup service from their home or office—at no extra charge—and they can order free, eco-friendly Priority Mail and Express Mail packaging.

Customers can also buy stamps at Post Office prices at almost 50,000 supermarkets, convenience stores, and other businesses—more locations than there are Post Offices, generating more than \$1 billion in annual postage sales. With stamp purchases still our most frequent lobby transaction, we want to make it as easy as possible for our customers to get the stamps they need without having to make a side trip to the Post Office. And just about anything that can be mailed at the Post Office or in a street collection box can be mailed by our customers right at their home or office mailboxes. Fully 28 percent of retail revenue is generated through alternate channels.

Against the backdrop of this expanded access, we must weigh the effects of the dramatic contraction of our business base, as measured in declining mail volume and revenue over the last two years. We know that in our cities, the geographic concentration of postal retail facilities far exceeds that available to customers in less-densely populated areas, and usage has declined. In some locations, stations and branches may be within walking distance of each other.

At the same time, with mail volume down considerably, and average delivery volume per address down as well, there may be opportunities to combine delivery operations into fewer locations. This can help to improve efficiency as we reduce lease and other facility costs, with no adverse effects on local delivery service.

We believe there is the potential for substantial annual savings by exploring opportunities for consolidation at 3,000 stations and branches located in cities of all sizes, particularly as the expansion of alternate access has increased the availability of our retail services. This is the same approach being taken by many national and local retailers who are facing declining sales. Retail infrastructures that were created to meet the needs of higher-levels of consumer spending now exceed current needs.

The Postal Service has been able to serve America for more than two centuries by adapting its network to the needs of the nation. It cannot remain static, because the nation we serve has not—and will not—remain static.

Congress, in enacting a new postal law in 2006 was clear in its expectations that the Postal Service operate in a more businesslike manner than had previously been possible and that it pursue every opportunity for network efficiencies. As you have indicated, significant and ongoing mail volume declines will require hard choices and tradeoffs.

We recognize that the notion of reducing mail delivery from six to five days a week is certainly a hard choice but, given the gravity of our financial situation, it is a necessary choice, and one we are pursuing only reluctantly. In the simplest words I can find, we can no longer afford the costs of six-day mail delivery. In my mind, it is no longer a question of “if”, but rather “when”, will economics require this change. The time, I believe, is now.

The facts are clear. In fiscal year 2000, our carriers delivered an average of 5.9 pieces of mail per day to every address they served. This year, that has fallen to 4.7 pieces — a decline of 20 percent. Over the same period, our delivery base has expanded by more than 11 million addresses. We are delivering less mail to more addresses, resulting in less revenue per address served. In addition, the ratio of higher-contribution First-Class Mail to lower-contribution Standard Mail has declined, further eroding revenue per delivery.

With the existing six-day delivery requirement, we simply do not have the ability to adequately adjust to the very-real financial pressures this situation has created. However, under a five-day delivery model, the number of pieces per daily delivery would return to the levels of 2000.

Reducing the frequency of delivery would be an important step in helping to close the gap between costs and revenue—a situation that is unachievable in today’s environment, one that does not permit us to alter this basic product feature. By acting sooner rather than later, we can sharply reduce our losses and return to a firmer financial footing. In mail processing and retail operations, workhour reductions have essentially tracked mail-volume declines, but the high ratio of fixed costs in delivery operations has held reductions to only half that rate, reflecting a structural issue that impedes our ability to fully offset system overcapacity.

We understand the significant questions this would bring for the users of the mail and the need to work closely with all of our stakeholders as we study this issue and plan for its possible implementation. Reducing the frequency of delivery would have an impact on service. That is why Postal Service leadership has begun to engage customers at all levels. It is important that we understand their needs and concerns as we consider operating in a different delivery environment.

For example, we recognize that most business, professional, and government offices operate on a traditional five-day week, Monday through Friday. Mail delivery is an integral part of that five-day business cycle. For that reason, and owing to the fact that delivery volume is generally lighter on Saturdays, it is not our intention to reduce delivery frequency during the regular business week.

In considering our options, everything should be on the table. I believe we have no other choice but to consider solutions that were previously considered off limits.

Structural change will be necessary to enable us to finance universal service over the long term. Within the context of our immediate financial challenges, we believe a necessary step in the right direction is to examine our service infrastructure and act to align system capacity with significant and ongoing reduction in system use. We do not see any signs of this trend abating.

If we do not act to address this critical issue, we risk undermining the viability of the world's greatest postal system by creating insurmountable deficits and levels of debt that will simply compound the dire situation we are facing today. This will impede our attempts to effectively come to terms with the realities of today's business environment, making our recovery far more difficult than it might otherwise be and making future success all but impossible.

In the current business climate, with the diminished demand for mail services, today's network requirements are beyond our financial means. I am convinced that providing the Postal Service with the ability to reduce delivery from six days to five, is an appropriate and effective response to the sobering reality of our fiscal challenges.

When I appeared before this Subcommittee in the summer of 2007, I was asked about the future of six-day mail delivery. I responded that if there were to come a time when our cost burden was so out of line with our revenue, this could become the matter of a public policy debate that would ultimately require the attention of Congress.

At the time, we at the Postal Service recognized that we were facing a number of long-term issues stemming from changes in mail use patterns and a flattening growth curve. These were difficult problems, to be sure, but problems that we had anticipated and planned for. But the extent to which the economy has accelerated these trends has been nothing short of staggering. In effect, what some scenarios suggested would be a ten-year volume decline has been compressed into less than two years—and we expect additional volume losses next year.

As a consequence, we have proposed that Congress permit the Postal Service to change from our current six-day delivery to a five-day delivery schedule to allow us to continue providing superior mail-delivery service at a cost that can be better supported by current mail volumes. Independent surveys show that the majority of Americans would prefer this to other options, such as a price increase, in addressing the financial needs of our nation's postal system.

But without legislative change—sooner rather than later—we will be unable to overcome the financial pressures that threaten the viability of the Postal Service. Our most pressing need is a change in our payment schedule for retiree health benefits.

The Postal Service strongly supports and encourages the prompt enactment of H.R. 22, which originated with members of this Subcommittee, and today enjoys the support of over 300 members of the House of Representatives. By adjusting the method by which the Postal Service funds retiree health-care benefits, this bill would provide the Postal Service with welcome annual savings of approximately \$2 billion, beginning this year, and continuing over the following seven years. And enactment of this legislation would not require a Congressional appropriation. Unfortunately, as mail volume continues to plummet, even H.R. 22 will be insufficient to close the gap between costs and revenue. That is why we must make fundamental changes to our service network—including reduced delivery frequency.

The Postal Service will continue to implement the cost-reduction and efficiency programs I have discussed today. We will seek out new opportunities to expand their range and increase their effectiveness. And as we do that, we will remain focused on improving service.

Mr. Chairman and members of the Subcommittee, I appreciate your interest in building a stronger, yet leaner, Postal Service for the people of our nation and I look forward to working with you in reaching that goal. I would be pleased to answer any questions you may have.

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Mr. LYNCH. Thank you, Mr. Galligan.
Mr. Waller, you are now recognized for 5 minutes.

STATEMENT OF JOHN WALLER

Mr. WALLER. Thank you. Chairman Lynch, Ranking Member Chaffetz, and members of the subcommittee, thank you for the opportunity to testify. The Postal Service, as we have heard, is in a precarious financial position due to historic declines in mail volume. In response, the Postal Service—

Mr. LYNCH. Mr. Waller.

Mr. WALLER. Yes.

Mr. LYNCH. May I ask you to please pull that mic a little closer to you?

Mr. WALLER. Oh, yes. There we go. Better?

Mr. LYNCH. Thank you, sir, much better. Thank you.

Mr. WALLER. OK.

In response, the Postal Service is continuing to make unprecedented work hour reductions and systemic changes. Solvency is contingent on the Postal Service achieving nearly \$6 billion in cost savings this year and utilizing its maximum \$3 billion borrowing authority. Even then the Postal Service is likely to run out of cash by year end unless it receives legislative relief that would amount to \$2 billion this year.

Now, the Postal Service is trying to find new revenue to offset its volume losses. For example, since the passage of the PAEA, this Commission has approved 49 negotiated service agreements between the Service and its customers, aimed at increasing revenue. Also, the Commission has recently received two Postal proposals for innovative marketing efforts, one of which is commonly known as the summer sale.

While the Commission continues to encourage the agency to use the pricing flexibility granted under the PAEA, the Postal Service must rely on cost cutting and efficiency measures to deal with this current financial difficulties. To this end, the Postal Service has significant changes underway within its network. For example, as noted by Mr. Galligan, it is adjusting its delivery networks; it is employing more ground transportation, less airlift; it is adjusting post office hours and reducing the number of neighborhood collection boxes; it is once again consolidating processing facilities; and it has just begun making significant changes in how mail flows between its network of some 400 plants as part of the long-promised surface transportation and bulk mail center reorganization.

At the same time, it is launching new technologies to expand automation for sorting flats to carrier delivery sequence and to revolutionize management of the mail stream from collection to delivery through the use of Intelligent Mail Barcodes.

As I testified last year before the subcommittee about Postal Service efforts to realign its mail processing network, the Commission is concerned about the lack of a comprehensive plan with specific performance targets and goals, as required by the PAEA. The Commission continues to push for the Postal Service to expand the specificity and overall vision of its plans.

The Postal Service is dealing with considerable uncertainty while implementing significant changes. This places a premium on the

need for timely reporting on finances and service performance. The Commission is committed to enhancing the quality and utility of such reports. The Commission is once again, now, receiving monthly financial statements from the Postal Service to provide quick financial transparency. Also, the Commission expects to see a robust service measurement system come to fruition this year based on the Intelligent Mail Barcode, which will extend measurement to nearly 95 percent of the mail. For example, starting this fiscal year, the Commission is receiving the first-ever quarterly reports on speed of delivery of presorted, first class, and standard mail by district and area office. This will be an important element in tracking whether service is or is not impacted by the various changes that are being made.

Even if all the cost-cutting and modernization efforts are successful, the Postal Service states its need for legislative relief in two areas. First, it has requested an adjustment in the method of paying current retiree health benefit premiums and has endorsed H.R. 22 as a means of accomplishing this. Now, to clarify my written statement, the Commission has not taken a formal position on H.R. 22, but Commission Chairman Blair did, in his March appearance before this subcommittee, state his support of relief on health benefit premiums.

The Postal Service has also requested the removal of legislative restrictions on the frequency of mail delivery. In its study of Universal Postal Service and the Postal Monopoly, the Commission found the net savings from switching to 5 day delivery to be about \$1.9 billion. But before implementing any such change in service, the PAEA requires that the Postal Service obtain an advisory opinion from the Commission that would involve a public proceeding on any such proposal.

This concludes my statement. I appreciate the opportunity to be here and I am willing to answer any questions you may have. Thank you.

[The prepared statement of Mr. Waller follows:]



**Statement of John Waller, Director of Office of Accountability and Compliance
On behalf of the Postal Regulatory Commission**

**Before the U.S. House of Representatives Committee on Oversight
And Government Reform Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
May 20, 2009**

Chairman Lynch, Ranking Member Chaffetz, and members of the Subcommittee, thank you for the opportunity to testify. I am pleased to represent the Commission at this hearing on Postal Service cost cutting efforts and their impact on postal operations and networks.

The Postal Regulatory Commission serves as the Postal Service's regulator with responsibility for providing transparency on its financial operations, pricing policies, and service performance to Congress, stakeholders and the general public and ensuring compliance with the Postal Accountability and Enhancement Act (PAEA). In this regard the Commission is acutely aware that the Postal Service is in a precarious financial position and needs to implement systemic changes with potential risks to its performance, service and long-term viability.

As the Commission reported in its Annual Compliance Determination (ACD) issued this past March, mail volume declined 4.5 percent, or 9.5 billion pieces, in Fiscal Year (FY) 2008. The Postal Service ended the year with a \$2.8 billion loss, after essentially breaking even in the first half of the year. Without the required \$5.6 billion payment to the Retiree Health Benefits Trust Fund mandated by the PAEA, the Postal Service would have had a \$2.8 billion profit.

The Postal Service's mid-year numbers for FY 2009 show accelerated deterioration in both finances and volume. Through Quarter 2, which ended on March 30, the Postal Service had a net loss of \$2.3 billion and a year-over-year decrease in mail volume of nearly 13 billion pieces. The rate of mail decline has also increased significantly, reaching 14.7 percent in Quarter 2, compared to 9.3 percent in Quarter 1 and a 4.5 percent drop last year.

The Postal Service is trying to find new revenue streams to offset its volume losses and it has begun using its flexibility under the law to pursue new growth strategies. The Commission so far has approved 49 negotiated service agreements (NSAs), which are designed to incent major customers to mail in larger volumes. Also in the past month, the Commission has received postal proposals for two innovative new growth efforts. One is the first market test under the PAEA, a two-year test of a less-than-truckload service called collaborative logistics, which would allow the Postal Service to earn new revenue hauling goods on pallets in space available on trucks that are currently underutilized. The Commission approved this market test on May 7. The second new marketing idea is popularly known as a "summer sale." This temporary price adjustment attempts to provide incremental revenue through a discount scheme that would reward mailers who increase their volumes above historical norms and expectations.

The Commission continues to encourage the Postal Service to use its new pricing flexibilities to develop new products, increase revenue and grow mail volume. The volume based NSAs have produced several million dollars in additional revenue since being approved. However, the two new marketing initiatives are in the early developmental stage. Consequently, the Postal Service must rely on cost-cutting and efficiency measures to deal with its current financial difficulties.

Based on financial results so far this year, the Postal Service will run out of cash unless it receives \$2 billion in relief from legislatively mandated payments for retiree health benefit costs or there is a complete reversal in volume trends. Even with this relief, solvency is contingent on the Postal Service achieving nearly \$6 billion in cost savings

and utilizing its maximum \$3 billion borrowing authority. These estimates also reflect the revenue gained from the price increases for competitive products implemented in January and the 3.8 percent increase for market-dominant products that took effect on May 11. Without legislative relief, the Postal Service is likely to have a year-end cash shortfall of \$1.5 billion. In this event, the Postal Service would not be able to pay all of its obligations.

The gravity of the Postal Service's financial position reinforces the need for the Postal Service to provide thorough, regular and transparent updates on its finances and operational performance. In response to earlier Commission concerns, the Postal Service has begun to provide monthly financial reports. In addition to an income statement, the Postal Service also presents volume information by class, a breakdown of expenses by category, and a report on total work hours used.

The Postal Service is under considerable pressure to achieve its target to trim \$5.9 billion in costs, primarily through network adjustments to increase efficiency and match its workforce to a diminishing workload. Through the first half of FY 2009 the Postal Service has achieved about 40 percent of its planned cost reductions. Savings in mail processing and transportation account for about a quarter of the achieved savings. Delivery and customer service account for about half of the achieved savings. The Commission will continue to monitor the Postal Service's progress toward the achievement of the planned cost savings through the rest of the year.

To provide universal mail service to the American people, the Postal Service operates a system of interlinking networks for receiving, processing, transporting and delivering mail, and for conducting related financial and operational transactions. The Postal Service has made significant changes within these networks and must continue to do so if it is going to increase efficiency and capture savings while adopting new technologies and adjusting to sizeable and volatile changes in demand.

For example, the Postal Service has announced that it will review and adjust 150,000 delivery routes by the end of calendar 2009. It is revising its national transportation network to use more ground transportation and less airlift. It is adjusting post office retail hours and reducing the number of neighborhood collection boxes. And, it is making numerous changes throughout its mail processing network of some 400 plants, which constitute the core of the national hub and spoke system that sorts and dispatches mail for delivery locally and across the nation.

The Postal Service submitted its reorganization plan for the processing network to Congress last June. I provided this Subcommittee with the Commission's views on that plan at a subsequent July 24 hearing. The Commission found that the plan lacked specific performance targets and goals. The plan also relied on a piecemeal approach that lacked a comprehensive vision for what the network would look like when reorganization was completed. This is still true. Nevertheless, the Postal Service is taking action and has made progress in reducing workhours and costs.

Within the processing network, the Postal Service is eliminating airport mail facilities, developing a strategy for its 21 Bulk Mail Centers, now reclassified as Network Distribution Centers, and it is adjusting work schedules and reviewing coverage areas for its Processing and Distribution Centers, which comprise the lion's share of the mail processing network. In general, the shape of the processing network appears largely unchanged, and the majority of savings are being derived through adjustments to staffing and processes.

The mail processing network is not only the heart of the mail system; it is at the center of technological change in the mail. The Postal Service is in the early stages of deploying a Flats Sequencing System (FSS) that will enhance the automation of flat sorting. The Postal Service expects the FSS system to significantly lower costs and improve service for flats, just as letter automation did for letters. Yet it took nearly a decade for those efficiencies to be fully realized.

The Postal Service reports that FSS systems installed in Dulles, Virginia have successfully completed testing and validation. Although the test and validation process had its setbacks, a multi-year nationwide deployment began this month, with the first FSS machines slated for installation in Columbus, Kansas City, and Phoenix. In phase 1 of its plan, the Postal Service anticipates deploying 100 machines. These are very large and expensive pieces of equipment, which require considerable plant space to operate efficiently. It is essential that the Postal Service coordinate its various plant changes to ensure they work harmoniously and deliver the maximum return on time and investment. Postal work hours have declined significantly over the past year as the Postal Service has moved to match resources with the declining workload. In areas where costs are highly correlated with mail volume, the Postal Service has achieved a higher percentage of work hour reductions. For example, mail processing and customer service work hours have decreased by 13.9 and 12 percent, respectively. In the delivery network, which has a higher percentage of fixed costs, work hour reductions have been harder to obtain. Work hour usage for city carriers has declined 6.2 percent and rural delivery work hours have declined 4.8 percent.

Personnel reductions entail risk to service quality. The Postal Service has strongly asserted its intention to ensure that service quality is not diminished. While the Commission does not doubt the sincerity of those intentions, it is critical that service be accurately measured and reported to ensure that the outcome is achieved.

As the Commission reported in its Annual Compliance Determination, just 20 percent of mail volume was objectively measured for service performance in 2008. However, the results for this mail were good. The speed of delivery improved for the mail that was measured. During this same period, the Postal Service was able to reduce 50 million work hours from the prior year, indicating that service improvement and cost cutting are not inherently incompatible.

The external measurement system that confirmed these results has been in existence for nearly two decades. When the system debuted in 1990, the Postal Service was reporting a 95-percent

on-time performance for First-Class Mail based on its own internal measurements. External measurement provided a far different picture, with on-time results in the low 80s.

It was clear that the new measurements provided a more accurate view of the service that was actually being delivered to customers. The Postal Service, to its credit, publicly reported the results and resolved to improve the service, which it has done. Last year, 96 percent of local First-Class Mail was delivered overnight.

As this experience shows, accountability for objectively measured service performance helps drive service improvement. Building on this idea, the PAEA directed the development of service standards and measurement systems for the Postal Service's market-dominant products, which account for about 95 percent of mail volume.

The Postal Service, in consultation with the Commission, established the standards last year and they are publicly available through the respective websites. For the standards to be meaningful, however, a robust measurement system is required. This is now in development. In November, the Commission approved the concept for a measurement system based on the Intelligent Mail Barcode (IMb). This system will augment the existing external measurement procedure and provide performance data for the majority of mail volume that is not currently covered.

The IMb approach relies on Postal Service technology to capture data as mail passes from the mailer through the system to ultimate delivery. By piggy-backing on existing technology, the Postal Service's goal is to keep down the cost of the measurement system. The Commission has identified two important risks. First, the Postal Service must prove its ability to implement and maintain the system, which is a work in progress. Second, mailers need to invest in migrating substantial mail volumes to the IMb platform so that statistically valid data can be gathered. The system, which has been in test mode for some time, went live this month. The Commission will continue to monitor its development and consult with the Postal Service on performance and improvements. For example, in addition to publishing service-wide results, the Commission is

recommending that the Postal Service report performance data at the Area and District level to better target service improvement efforts.

These measurement systems are critical tools for postal managers and customers to ensure that service is delivered as expected. Also, comprehensive measurement will help ensure that price cap restrictions are not circumvented by diminishing the quality of service provided. The Commission will continue to work with the Postal Service and to exercise its regulatory authority to improve system performance overtime and to ensure prompt, accurate and transparent performance reports.

The complement to speed of delivery is customer service. While the Postal Service has arguably reduced customer service by shortening retail hours, eliminating vending machines and reducing the number of collection boxes, it has also expanded customer access and convenience through technology and third-party providers. For example, customers can purchase stamps by mail, phone and Internet, as well as through thousands of private-sector stores that sell stamps at face value on consignment. Postal customers can also access many postal services online at USPS.com, including change-of-address, mail forwarding, hold-mail services, and carrier pick-up for packages.

The Commission has a number of critical roles in safeguarding service. By statute, the Postal Service is required to seek the Commission's advice before implementing nationwide service changes. The Commission then provides a forum for public input on the changes and incorporates the public's views in its Advisory Opinion. The Commission also reviews public appeals of post office closings, and it has established formal and informal processes for reviewing service complaints. The new complaint rules allow the Commission to order corrective actions, and in the instance of deliberate non-compliance, the authority to levy fines.

Even if the Postal Service is successful with all of its cost control and transformation efforts, it appears likely that without legislative relief the Postal Service will run out of cash this year and face serious financial difficulty in 2010 and beyond.

The Postal Service states that it needs legislative relief in two areas to bridge its expected financial shortfalls. First, it has requested an adjustment in its retiree health benefits premium payments. The Postal Service endorses the approach embodied in Representative McHugh's legislation, H.R. 22. This legislation takes the approach of suspending the retiree health benefit premium payment for current employees for eight years.

In light of the continuing deterioration of Postal finances and the uncertainty of long-range projections of economic activity and demand for mail, the amount and duration of relief require careful attention. As Chairman Blair suggested to this Subcommittee in March, the Commission believes that a shorter, two-year term of relief combined with a possible adjustment or suspension of the scheduled payment of \$5.4 billion into the health benefits fund also merits consideration. If Congress were to adjust or suspend the scheduled payments, it would need to ensure the sustainability of the fund to address the long-term health benefit liabilities.

The Postal Service has also requested the removal of legislative restrictions so it could reduce the frequency of mail delivery from six to five days. The delivery network consists of over 150 million addresses. There is less flexibility in reducing costs in this network, because each address must be served whether there are many pieces to be delivered or just a single letter. Consequently, only half of the delivery costs vary with volume. Current annual appropriations language prohibits the Postal Service from reducing mail delivery from six days a week. Therefore, any proposals to change the frequency of mail delivery must be approved by Congress.

The Commission's study of Universal Postal Service and the Postal Monopoly estimated the net value of switching to five-day delivery to be about \$1.9 billion. Since this proposal would result in a nationwide change of service, it would require the Postal Service to bring it before the Commission to conduct a review, solicit public input and issue an Advisory Opinion.

Public expectations are important. In its study on Universal Postal Service and the Postal Monopoly, the Commission found that the public considered frequency of delivery to be one of seven essential elements that constitute the Postal Service's Universal Service Obligation (USO). The USO also includes access, price, service quality, range of products, geographic scope, and user's rights.

These seven elements cannot be viewed only as isolated cost centers. They are essential parts of the USO. The Commission recommends that Congress consider and balance all of the features of universal service as part of any review of changes necessary to preserve a financially sound mail system.

In summary, the Postal Service is in dire financial circumstances due largely to the length and severity of the current recession that has resulted in an historic decline in mail usage. The Postal Service is taking concerted action to lower its costs and to improve efficiency; however, it expects to run out of cash this year and needs help to meet its short-term obligations. The Commission supports the Postal Service in its continuing efforts to streamline its network, and provide more cost-efficient services. The Commission is working with the Postal Service to provide the accountability and transparency that is needed to build support for its agenda of change and to ensure that its requests for legislative relief are considered in full understanding of the circumstances and choices faced by the Postal Service.

This concludes my written statement and I appreciate this invitation to testify. I welcome the opportunity to answer your questions.

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Mr. LYNCH. Thank you, Mr. Waller.
Mr. Herr, you now have 5 minutes for an opening statement.

STATEMENT OF PHILLIP HERR

Mr. HERR. Chairman Lynch, Ranking Member Chaffetz, and members of the subcommittee—

Mr. LYNCH. Mr. Herr, I am not sure if your mic is on.

Mr. HERR. I have a green. Is that—

Mr. LYNCH. Can you move it a little closer to you?

Mr. HERR. OK. Now?

Mr. LYNCH. Sure.

Mr. HERR. OK.

Mr. LYNCH. Thank you.

Mr. HERR. I am pleased to participate in this hearing on the Postal Service's operations and network. My statement addresses three topics: first, challenges to the Postal Service's financial viability given current economic conditions; second, opportunities to rightsize Postal Service retail and mail processing networks; and, third, options and tradeoffs to consider.

First, I would like to highlight the dramatic declines in the Postal Service's financial condition, as noted earlier. Mail volume is projected to decline 10 to 12 percent for fiscal year 2009, the largest annual decline since the Great Depression, with serious implications; a potential net loss of over \$6 billion if the Service achieves an unprecedented \$6 billion in cost savings; borrowing \$3 billion, which is projected to still leave a \$1.5 billion cash shortfall. And fiscal year 2010 is also going to be very challenging, with a projected decline of an additional 10 billion mail pieces.

We are closely monitoring the Postal Service's financial viability at GAO. Depending on how effectively the Postal Service removes costs and manages its cash-flow, we may consider adding it to our high risk list.

Turning to opportunities to rightsize the Postal Service's retail and mail processing networks, network rightsizing is needed to reduce excess capacity, improve efficiency, and facilitate streamlining. There is a window of opportunity for Postal work force rightsizing through attrition rather than layoffs. About 160,000 Postal employees are eligible for retirement this fiscal year, and nearly 130,000 employees are expected to become eligible to retire by fiscal year 2013.

The Postal Service has made progress in expanding alternatives to its traditional retail network. Customers can now buy stamps at drugstores and supermarkets or over the Internet. Accordingly, the Postal Service can streamline its network of close to 37,000 post offices, branches, and stations, which has remained largely static, despite expanding alternatives.

There is wide variation in the number of postal retail facilities among comparable counties, and opportunities to reduce them are particularly evident in urban and suburban areas. In addition, there is a maintenance backlog for these facilities.

Turning to processing capacity, the Postal Service has made some limited progress in streamlining its processing network. Three long-term trends have increased excess capacity: first, automated equipment enables faster and more efficient mail sorting;

second, single piece first class mail volume has declined from about 60 billion pieces in fiscal year 1990 to a projected 35 billion pieces in fiscal year 2009, meaning there is less mail to move through the network; third, destination entry of standard mail has increased from 26 percent in 1991 to 80 percent in 2008.

The Postal Service understands that it has excess processing capacity and has initiated studies of area mail processing consolidations. The status of recent proposals is listed in Appendix 2 of my statement. In passing the Postal Reform Act in 2006, Congress strongly encouraged streamlining the processing network. We recognize that the Postal Service faces resistance because of concerns about the effects on service, employees, and local communities. Senior postal management will need to explain its plans, engage with its unions, management associations, and the mailing industry, as well as political leaders, and then demonstrate results. In turn, stakeholders need to recognize that major change is urgently needed for the Postal Service to remain financially viable.

Other options to address the Postal Service's financial challenges involve tradeoffs. Deferring payments for retiree healthcare benefits would increase unfunded retiree health benefit obligations. Reducing delivery frequency could further accelerate mail volume decline. Downgrading delivery standards could affect time-sensitive mail. Raising statutory debt limits could exacerbate the Postal Service's financial difficulties in the future. And providing direct appropriations would be contrary to the principle that the Postal Service be financially self-supporting.

In closing, the Postal Service and its employees play an important role in the American economy. However, the environment in which it operates has changed dramatically, and so too must the Service as it takes actions needed to be self-sustaining.

Mr. Chairman, thank you for the opportunity to testify before the subcommittee. I would be pleased to answer any questions you or members of the subcommittee have. Thank you.

[The prepared statement of Mr. Herr follows:]

GAO

United States Government Accountability Office**Testimony**

Before the Subcommittee on Federal
Workforce, Postal Service, and the District of
Columbia, Committee on Oversight and
Government Reform, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Wednesday, May 20, 2009

U.S. POSTAL SERVICE**Network Rightsizing
Needed to Help Keep USPS
Financially Viable**

Statement of Phillip Herr, Director
Physical Infrastructure Issues





Highlights of GAO-09-674T, a hearing before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

The recession accelerated declines in mail volume in fiscal year 2008 and flattened revenues despite postal rate increases. That year, mail volume fell by 9.5 billion pieces, or 4.5 percent, and resulted in a net loss of \$2.8 billion as the U.S. Postal Service's (USPS) cost-cutting did not close the gap between revenues and expenses. We testified this March before this subcommittee that USPS's financial condition has continued to deteriorate in the first 5 months of fiscal year 2009, with accelerating declines in mail volume and financial losses. USPS projected its financial condition to continue deteriorating for the rest of the fiscal year and to result in an unprecedented cash shortfall of \$1.5 billion, assuming that ambitious cost-cutting targets are achieved.

This testimony updates that information and focuses on (1) how USPS's financial viability is challenged given current economic conditions and whether USPS can cover its expenses and financial obligations, (2) USPS's opportunities to rightsize its retail and mail processing networks, and (3) what options and trade-offs need to be considered to address mail volume and revenue declines. It is based on GAO's past work and updated information on USPS's finances and networks. We asked USPS for comments on our statement. USPS generally agreed with the accuracy of our statement and provided technical comments, which we incorporated where appropriate.

View GAO-09-674T or key components. For more information, contact Phillip Herr at (202) 512-2834 or pherr@gao.gov.

May 20, 2009

U.S. POSTAL SERVICE

Network Rightsizing Needed to Help Keep USPS Financially Viable

What GAO Found

USPS continues to project a mail volume decline of 10 to 12 percent for fiscal year 2009. As a result, USPS projects

- a financial gap of about \$12 billion, which despite planned cost cuts of \$5.9 billion, would result in a record annual loss of over \$6 billion, and
- an increase in outstanding debt by the annual statutory limit of \$3 billion, and, despite this step, an unprecedented \$1.5 billion cash shortfall.

For fiscal year 2010, USPS currently projects that mail volume will decline by an additional 10 billion pieces, leading to a financial loss similar to the loss in fiscal year 2009 and another possible cash shortfall.

Maintaining USPS's financial viability as the provider of affordable, high-quality universal postal service will require actions in a number of areas, such as (1) rightsizing its retail and mail processing networks by consolidating operations and closing unnecessary facilities and (2) reducing the size of its workforce. USPS has made limited progress in rightsizing its networks, an action that is often controversial but necessary to address the unprecedented declines in mail volume and help close the large and growing gap between USPS revenues and expenses. Further, rightsizing USPS's retail and mail processing networks is needed to eliminate growing excess capacity and improve efficiency—action that is critical to maintaining affordable postal rates and streamlining USPS's workforce, which generates close to 80 percent of its costs. USPS has consolidated operations through attrition and currently has about 160,000 employees eligible for retirement. USPS can streamline its retail network by closing unnecessary facilities and promoting lower-cost alternatives such as purchasing stamps by mail, telephone, and the Internet, as well as at drug stores and supermarkets. USPS also has substantial excess capacity in its mail processing network and has proposed consolidating some processing operations at its 21 Bulk Mail Centers and other facilities. In the Postal Accountability and Enhancement Act of 2006, Congress recognized USPS has more facilities than it needs and strongly encouraged streamlining its networks. Rightsizing will require continued congressional support for necessary closures and USPS leadership to address resistance to change.

Other options that could help USPS remain financially viable involve difficult trade-offs, including

- deferring USPS payments for retiree health benefits, which would increase the unfunded retiree health benefit obligation;
- reducing the frequency of 6-day delivery, which would affect a key aspect of universal service and could further accelerate mail volume decline;
- downgrading delivery standards, which could affect time-sensitive mail;
- raising statutory debt limits, which could further exacerbate USPS's financial difficulties in the future; and
- providing direct appropriations, which would be contrary to the fundamental principle that USPS remain financially self-supporting.

Finally, GAO is closely monitoring USPS's financial viability to determine whether to add USPS's need for restructuring to GAO's High-Risk List.

Chairman Lynch, Ranking Member Chaffetz, and Members of the Subcommittee:

I am pleased to be here today to participate in this oversight hearing on the U.S. Postal Service's (USPS) operations and network. My statement addresses the following questions:

- How is USPS's financial viability challenged given current economic conditions and can USPS cover its expenses and financial obligations?
- What opportunities does USPS have to rightsize its retail and mail processing networks?
- What options and trade-offs need to be considered to address significant mail volume and revenue declines?

My statement is based on our continuing monitoring of USPS's financial condition and outlook, and our past and continuing work on USPS network operations. We obtained updated information on USPS results for this fiscal year through the second quarter and USPS's outlook for fiscal years 2009 and 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**USPS Financial
Viability Is
Threatened by
Declining Mail
Volume and Revenues**

As of the end of the second quarter, USPS projects a mail volume decline of 10 to 12 percent for fiscal year 2009, more than double the 4.5 percent total volume decline in fiscal year 2008 and the largest decline since the Great Depression. As a result, USPS is projecting the following:

-
- a potential financial gap of about \$12 billion between revenues and expenses, which USPS projects will be diminished by achieving cost savings of \$5.9 billion—leading to a net loss of over \$6 billion;⁴
 - an increase in outstanding debt by the annual statutory limit of \$3 billion; and, despite this borrowing,
 - an unprecedented \$1.5 billion cash shortfall. USPS has reported that it does not expect to generate sufficient cash from operations to fully fund its fiscal year 2009 obligations for workers' compensation (about \$1.1 billion), due in September 2009, and future retiree health benefits (\$5.4 billion) that is due by September 30, 2009.

Fiscal year 2010 is also likely to be challenging. USPS is currently projecting that mail volume will decline by an additional 10 billion pieces, leading to a financial loss similar to the loss in fiscal year 2009 and another possible cash shortfall. Under this scenario, USPS may increase its outstanding debt by an additional \$3 billion, which would bring its total debt to \$13.2 billion at the end of fiscal year 2010—only \$1.8 billion less than its \$15 billion statutory limit. See appendix I for more detailed financial information.

USPS's \$5.9 billion cost-cutting target for this fiscal year is unusually ambitious in that it exceeds annual cost-cutting targets it has set since 2001, which ranged from nearly \$900 million to \$2 billion. However, even if it achieves its cost-cutting target for fiscal year 2009, USPS projects cash shortfalls because it does not expect its cost-cutting efforts and rate increases will fully offset the impact of mail volume declines and other factors that increase costs—notably semiannual cost-of-living allowances (COLA) for postal employees covered by union contracts. Compensation and benefits constitute close to 80 percent of USPS costs—a percentage that has remained similar over the years despite major advances in technology and automating postal operations. Also, USPS continues to pay a higher share of employee health benefit premiums than other federal agencies. Further, USPS has high overhead (institutional) costs that are hard to change in the short term, such as providing universal service that includes 6-day delivery and a network of close to 37,000 post offices and retail facilities.

⁴USPS lost \$2.8 billion in fiscal year 2008—its second-largest annual loss since 1971.

Proposed legislation could help to maintain USPS's short-term solvency by reducing USPS payments for retiree health benefits by \$2.0 billion in fiscal year 2009 and \$2.3 billion in fiscal year 2010.² As in prior testimony, we support providing 2 years of relief from these payments to assist USPS through its short-term difficulties while minimizing the impact on USPS's unfunded retiree health benefits obligation.³ We do not support the additional 6 years of relief that the proposed legislation would also provide, because it would lead to an estimated \$75 billion (rather than \$43 billion) in unfunded obligations for USPS retirees' health benefits in 2017. Further, we believe the proposed legislation does not address USPS's long-term problems related to declining mail volume, particularly in First-Class Mail, which covers most USPS overhead costs.

Maintaining USPS's financial viability as the provider of affordable, high-quality universal postal service will require actions in a number of areas. The Postal Accountability and Enhancement Act of 2006 (PAEA) enabled USPS to retain earnings that can finance needed capital investments and repay debt. Although USPS is developing revenue initiatives from new flexibilities provided in the 2006 act, it does not expect these initiatives to generate much net revenue in the short term. Further, USPS has curtailed capital spending to conserve cash, an action that may be a necessary stopgap measure. However, this is not a sustainable long-term strategy because USPS will need to continue making investments to maintain and modernize its infrastructure, address its maintenance backlog, automate postal operations, replace aging vehicles, and cover expenses to consolidate operations and rightsize its retail and mail processing networks.

Action Is Needed to Rightsize USPS Networks and Workforce

Network rightsizing by consolidating operations and closing unnecessary facilities is likely to be only one of many steps that USPS will need to take to remain financially viable in the long run. Rightsizing USPS's retail and mail processing networks is needed to eliminate excess capacity, improve efficiency that is critical to maintaining affordable postal rates, and facilitate streamlining USPS's workforce, which generates close to 80

²H.R. 22, 111th Cong.

³GAO, *U.S. Postal Service: Escalating Financial Problems Require Major Cost Reductions to Limit Losses*, GAO-09-476T (Washington, D.C.: Mar. 25, 2009); *U.S. Postal Service: Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs*, GAO-09-332T (Washington, D.C.: Jan. 28, 2009).

percent of its costs. Excess capacity has grown with unprecedented declines of mail volume, which are projected to continue through fiscal year 2010. As we recently testified, as its mail volumes decline, USPS does not have sufficient revenues to cover the growing costs of providing service to new residences and businesses while also maintaining its large network of retail and processing facilities.⁴

We have reported since 2003 that USPS needs to realign its retail and processing networks and rightsize its workforce.⁵ In 2005, when mail volume was 212 billion pieces, we reported that excess capacity in USPS's retail and mail processing networks created opportunities for it to increase efficiency and reduce costs.⁶ The recession has accelerated the decline in mail volume and revenues so that dramatic action—beyond USPS's incremental streamlining efforts—is needed. Closing postal facilities is often controversial but is necessary to streamline costs and eliminate excess capacity.

USPS has made some limited progress in streamlining its mail processing network by closing smaller facilities such as Airport Mail Centers and Remote Encoding Centers and consolidating some operations through Area Mail Processing consolidations.⁷ However, USPS has closed only 1 of its approximately 400 major mail processing facilities. USPS has often faced resistance from employees, affected communities, and Members of Congress when it has attempted to consolidate its operations and networks. In enacting PAEA, Congress recognized USPS had more facilities than it needs and strongly encouraged streamlining its networks, noting this can pave the way for eliminating excess costs. Continued congressional support for necessary closures would be helpful to facilitate progress in this area. USPS has taken steps to address our recommendations that it enhance the transparency and strengthen the

⁴GAO-09-332T.

⁵GAO, *U.S. Postal Service: Key Postal Transformation Issues*, GAO-03-812T (Washington, D.C.: May 29, 2003); *U.S. Postal Service: Bold Action Needed to Continue Progress on Postal Transformation*, GAO-04-108T (Washington, D.C.: Nov. 5, 2003).

⁶GAO, *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability*, GAO-05-261 (Washington, D.C.: Apr. 8, 2005).

⁷Remote encoding centers are separate plants established to apply address barcodes on letters that could not be read by the automated equipment in the mail processing plants.

accountability of its realignment efforts and thus should be positioned to take action.

Rightsizing postal retail and mail processing networks can eliminate costly excess capacity and enable USPS to continue streamlining its workforce through attrition. About 160,000 USPS employees will be eligible for retirement in fiscal year 2009 (not counting the 150,000 employees offered early retirement). Further, nearly 130,000 additional USPS employees are expected to become newly eligible for retirement in fiscal years 2010 through 2013—including more than 30,000 employees in each of these fiscal years. As USPS consolidates its operations, it can reduce costs and operate more efficiently with fewer employees. Network rightsizing is likely to be only one of many steps that USPS will need to take to remain financially viable in the long run. Nevertheless, network rightsizing and reducing the size of its workforce are necessary to address the unprecedented declines in mail volume and help close the large and growing gap between USPS revenues and expenses.

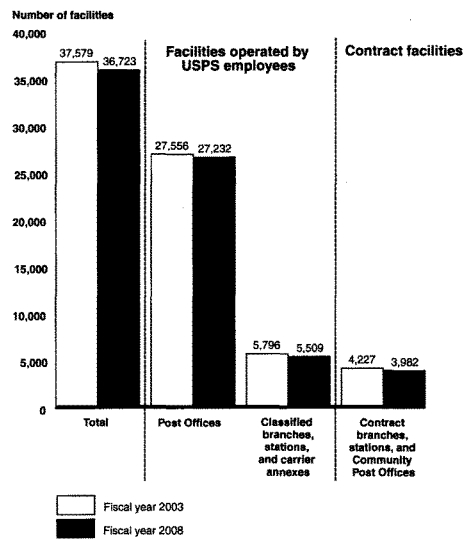
We recognize that USPS faces formidable resistance to closing and consolidating facilities because of concerns about the effects of such actions on service, employees, and local communities. Retail alternatives may be more convenient and cost-effective, but customers could resist changing long-standing habits. However, other businesses have successfully shifted many customer activities to self-service, including check-in at airports, checkout at grocery stores, self-service at gas stations, and automated teller machines at financial institutions. It is preferable for USPS to take action now rather than hoping that mail volume will revive sufficiently when the economy recovers. The outlook for USPS's core business of First-Class Mail—which covered nearly two-thirds of USPS overhead costs in fiscal year 2008—is for declines to continue for the foreseeable future as communications and payments continue to shift to electronic alternatives.

USPS senior management will need to provide leadership and work with stakeholders to overcome resistance to streamlining its retail and mail processing facilities for such actions to be successfully implemented. USPS must explain its plans in an open and transparent manner; engage with its unions, management associations, the mailing industry, and political leaders; and then demonstrate results of actions. In turn, these stakeholders need to recognize that major change is urgently needed if USPS is to remain financially viable.

**USPS Can Streamline Its
Retail Network while
Improving Access**

USPS can streamline its retail network while improving access by closing unnecessary retail facilities and promoting lower-cost alternatives such as purchasing stamps by mail, telephone, and the Internet, as well as carrier pickup of packages. USPS has long recognized the need to adjust its retail network to provide optimal service at the lowest possible cost and has worked to expand low-cost alternatives. Alternative retail options currently generate about a quarter of USPS's retail revenue. USPS continues to rely on providing service at traditional post offices, branches, and stations and has not significantly downsized its retail operations in recent years (see fig. 1). Opportunities to reduce retail facilities are particularly evident in urban and suburban areas, where USPS retail locations are close to one another, customers have more options, and facilities are expensive to operate and maintain.

Figure 1: USPS Retail Facilities, Fiscal Years 2003 and 2008



Retail Alternatives Have Expanded but Generate Only a Quarter of Retail Revenue

USPS has made progress in expanding the alternatives to traditional post offices and postal retail facilities. In 2008, customers could access postal services at more than 70,000 physical locations as well as other options to purchase stamps and mail packages (see table 1). Some postal services, such as stamp sales, are provided at alternative locations (e.g., drug stores and supermarkets). In addition, self-service options such as Automated Postal Centers are located in postal retail facilities.

Table 1: Alternative USPS Retail Options and Number of Locations, February 2008

Alternative retail options	Description	Number of locations
Partner programs		
Stamps on Consignment	Grocery and convenience stores and bank automated teller machines that sell stamps	53,196
Contract Postal Units	Contracted locations that offer full-service retail, but are not owned or staffed by USPS	4,510
Approved Shipper	Independent companies that offer USPS services along with competitor products	1,914
Self-service		
Automated Postal Centers	Kiosks that support the majority of transactions of a full-service retail counter	2,496
Vending machines	Machines that allow purchase of stamps for cash, which are being removed from many locations	9,439
Stamps by mail and telephone	Customers can order stamps that are delivered to their address	Not applicable
The Postal Store (USPS Web site)	Customers can purchase stamps and postal-related merchandise and online postage for Express Mail and Priority Mail at a reduced rate	Not applicable
Click-N-Ship	Online service enables customers to print postage labels and arrange to send packages	Not applicable
Total locations		71,555

Source: USPS.

USPS has also been expanding its self-service options to provide customers access to its services without visiting a physical location. For example, USPS has sold stamps by phone and mail for several years, and customers can purchase stamps at the USPS Web site. Further, USPS has introduced Click-N-Ship, which enables customers to use its Web site to print postage labels, including for Priority Mail, Express Mail, and international mail, and schedule package pickup, saving a trip to a post office. USPS has reported that use of its Web site continues to grow, both in number of transactions and revenue generated, and has plans to continue upgrading its Web site.

USPS Needs to Rightsize Its
Network of Postal Retail
Facilities

USPS can streamline its network of close to 37,000 post offices, branches, and stations—a network that has remained largely static despite expanding use of retail alternatives and shifts in population. In December 2007, we reported that USPS had not achieved a goal established in its 2002 Transformation Plan of proactively identifying unneeded retail facilities in overserved areas consistent with leading federal practices.⁸ USPS actions to align retail access were limited to closing some vacated facilities through “emergency suspensions” and reducing staff by curtailing operations at some other facilities.⁹ We noted in our 2007 report that leading federal practices identify criteria for rightsizing facility networks—such as considering facilities’ importance and utilization—but USPS did not consider these criteria. Our analysis showed wide variation in the number of postal retail facilities among comparable counties in urban areas, and a number of facilities we visited for that work appeared to merit consideration for closure based on one or more of the federal criteria.

We also found that USPS has a maintenance backlog for its retail facilities, including facilities that we visited which had chronically leaking roofs and visible interior and exterior damage. USPS officials stated that USPS has historically underfunded its maintenance needs and insufficient funding has caused USPS to focus on reactive maintenance—that is, “emergency” and “urgent” repairs—at the expense of routine maintenance to prevent problems. Since our 2007 report was issued, USPS has limited its capital expenditures to help conserve cash, an action that may affect its ability to make progress on its maintenance backlog. One way to minimize maintenance costs is to reduce the number of facilities that must be maintained.

⁸GAO, *U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services*, GAO-08-41 (Washington, D.C.: Dec. 10, 2007).

⁹USPS is required to consider specific factors in making a determination to close a post office and to give persons served the opportunity to present their concerns regarding such proposals. 39 U.S.C. §404(d). USPS also cannot close a small post office solely because it operates at a deficit. 39 U.S.C. §101(b).

**USPS Needs to Streamline
Its Mail Processing
Network to Reduce Excess
Capacity**

We reported in 2005 that USPS had substantial excess capacity in its mail processing network.¹⁰ Long-term trends have further increased excess capacity in the processing network such as continuing automation, declining volume of single-piece First-Class Mail (e.g., bill payments and personal correspondence), and destination entry of Standard Mail (e.g., mail that is transported by mailers to USPS facilities that are generally closer to where the mail is delivered) that reduces the need for USPS mail processing and long-distance transportation of mail. Trends contributing to excess capacity in the USPS processing and transportation networks include the following:

- *Advances in automation*—New automation equipment enables USPS to sort mail faster and more efficiently, a development that, with declining mail volumes, has resulted in more equipment downtime. In addition, new equipment, referred to as the Flats Sequencing System, will sort flat-sized mail (e.g., large envelopes, catalogs, and magazines) into delivery order, which is expected to reduce the need for space-intensive manual sorting at delivery units. Because delivery units are often colocated with post offices, branches, and stations, eliminating the excess space could involve relocating or consolidating retail activities.
- *Decline in single-piece First-Class Mail*—The volume of this mail has declined from about 60 billion pieces in fiscal year 1990 to about 38.6 billion pieces in fiscal year 2008, and is projected by USPS to decline to about 34.5 billion pieces in fiscal year 2009. Thus, there is less mail that is processed end to end through USPS's processing network.
- *Increases in destination-entered Standard Mail*—Destination entry of Standard Mail has increased from 26 percent in fiscal year 1991, when destination entry discounts were introduced, to 80 percent in fiscal year 2008. About half of Standard Mail is destination-entered at the USPS processing facility closest to the final destination of the mail, thus entirely bypassing USPS's network of Bulk Mail Facilities. Conversely, Standard Mail entered at "origin" mail processing facilities has declined from 74 to 20 percent.

The shift in how mailers use the USPS mail processing network provides opportunities to eliminate growing excess capacity. Last summer, we testified that USPS had taken steps to strengthen its processes for

¹⁰GAO-05-261.

consolidating its Area Mail Processing (AMP) operations.¹¹ Since then, USPS has initiated additional studies of proposed AMP consolidations, and the status of 33 recent AMP proposals is detailed in appendix II. Another major mail processing consolidation initiative that USPS has begun this year is realignment of its 21 Bulk Mail Centers and its Surface Transfer Centers into what is now referred to as Network Distribution Centers. It is important for USPS to make significant progress in consolidating its networks and reducing excess capacity or it may face more drastic cost-cutting options and have less time to achieve necessary cost reductions.

**Other Options to Help
USPS Remain
Financially Viable
Involve Difficult
Trade-offs**

Besides the option to defer payments for retiree health benefits discussed earlier, there are other options, all of which are difficult and require trade-offs, including

- reducing the frequency of delivery from 6 days,
- downgrading delivery standards,
- allowing USPS to accumulate additional debt by raising statutory debt limits, and
- reverting to direct appropriations to help finance postal operations.

Cutting delivery frequency would affect a key aspect of universal postal service and could further accelerate the decline in mail volume, thereby wiping out much or all of the potential savings from reducing delivery costs. Although USPS asked Congress in January 2009 to eliminate the long-standing appropriation provision mandating 6-day delivery, it has provided little information on how it would reduce delivery frequency and the potential impact on cost, volume, revenues, and customers. USPS estimated in 2008 that a year-round reduction in delivery frequency to 5 days a week could save \$3.5 billion annually, assuming this reduction would have no effect on mail volume. The Postal Regulatory Commission (PRC) estimated in 2008 that USPS could annually save \$1.9 billion by reducing delivery to 5 days, making some different assumptions, including assuming this would lead to a 2 percent volume decline. Thus, the USPS

¹¹GAO, *U.S. Postal Service: USPS Has Taken Steps to Strengthen Network Realignment Planning and Accountability and Improve Communication*, GAO-08-1022T (Washington, D.C.: July 24, 2008).

and PRC studies suggest that the potential savings from reducing delivery frequency is potentially sensitive to mailer response. Congress should have a more complete analysis of the trade-offs involved as it considers potential statutory changes in this area.

Although USPS has the authority to downgrade delivery standards for timely delivery of mail, this could affect time-sensitive payments, correspondence, advertising, or packages. Should USPS downgrade standards on a nationwide or substantially nationwide basis, it would be required to request an advisory opinion from the PRC, which would lead to a public proceeding.¹² This mechanism could also be used to explore the broader implications of reducing delivery frequency.

An option that would provide USPS with stopgap relief would be to raise the statutory debt limits to keep USPS financially solvent. However, this could further exacerbate USPS's financial difficulties in the future, when USPS and its customers may have difficulty repaying a larger amount of debt through higher postal rates. Direct appropriations, another option, would be contrary to the fundamental principle that USPS remain financially self-supporting through efficient, businesslike operations.

Finally, it is possible that USPS cost-cutting could affect service, particularly if USPS continues its incremental approach of reducing work hours through attrition while attempting to retain all of its major mail processing facilities. As USPS's Inspector General recently testified before this subcommittee, "if staff reductions are not coordinated with facility reductions, the Postal Service runs the risk of having protracted anemic staffing within an oversized network."¹³ To its credit, USPS has recently reported high levels of service performance for single-piece First-Class Mail despite its financial difficulties and cost-cutting efforts. However, it will be important for USPS to continue making progress on measuring and reporting the delivery performance for its major types of mail, as well as the effects of network changes.

In closing, we are closely monitoring USPS's financial viability as USPS responds to unprecedented declines in mail volume and revenues. In 2001, when we designated USPS's transformation efforts and long-term outlook

¹²39 U.S.C. §3661.

¹³USPS Office of the Inspector General, *Oral Statement on the Financial Stability of the Postal Service* (Arlington, Va.: Mar. 25, 2009).

as high-risk, USPS's financial outlook had deteriorated significantly and we were concerned that USPS had no comprehensive plan to address its financial, operational, and human capital challenges.¹⁴ In 2007, we removed this high-risk designation because USPS had developed and was implementing a Transformation Plan that addressed many of its challenges, and Congress had enacted comprehensive postal reform legislation giving USPS additional pricing flexibility and other mechanisms to help USPS remain competitive.¹⁵ At this point, it is not clear to what degree USPS's current financial difficulties are primarily tied to the current economic downturn—versus long-term trends such as changing use of the mail—and to what degree USPS's financial condition will improve when the economy recovers. Depending on how effectively USPS responds to mail volume and revenue trends, removes costs, and manages its cash flow, we may consider adding USPS's financial viability and need to restructure its operations to our High-Risk List.¹⁶

In commenting on a draft of this testimony, USPS generally agreed with the accuracy of our statement and provided technical comments, which we incorporated where appropriate.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions that you or the Members of the Subcommittee may have.

Contact and Acknowledgments

For further information regarding this statement, please contact Phillip Herr at (202) 512-2834 or herrp@gao.gov. Individuals who made key contributions to this statement include Shirley Abel, Teresa Anderson, Keith Cunningham, Kenneth John, Emily Larson, Hannah Laufé, Susan Ragland, and Crystal Wesco.

¹⁴GAO, *U.S. Postal Service: Transformation Challenges Present Significant Risks*, GAO-01-598T (Washington, D.C.: Apr. 4, 2001).

¹⁵GAO, *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: January 2007).

¹⁶Since 1990, GAO has identified federal programs and operations as "high risk" that, in some cases, need broad-based transformations to address major economy, efficiency, or effectiveness challenges. See GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

Appendix I: USPS Mail Volumes and Revenues

Table 1: USPS Mail Volume: Results for Fiscal Year 2008 and Current USPS Projections for Fiscal Years 2009 and 2010

	Mail volume (millions of pieces)			Mail volume (percentage change from previous fiscal year)		
	Actual 2008	Projected 2009	Projected 2010	Actual 2008	Projected 2009	Projected 2010
First-Class Mail*	91,697	83,649	78,029	-4.8	-8.8	-6.7
<i>Domestic: single-piece</i>	38,558	34,455	31,140	-8.8	-10.6	-9.6
<i>Domestic: bulk</i>	52,719	48,831	46,560	-1.7	-7.4	-4.7
Standard Mail	99,084	85,820	82,468	-4.3	-13.4	-3.9
Periodicals	8,605	7,785	6,847	-2.2	-9.5	-12.0
Package Services	846	765	723	-7.5	-9.6	-5.5
Subtotal: Market-Dominant Mail*	201,128	178,637	168,719	-4.5	-11.2	-5.6
Competitive Mail	1,575	1,363	1,282	-3.4	-13.5	-5.9
GRAND TOTAL	202,703	180,000	170,000	-4.5	-11.2	-5.6

Source: USPS.

*First-Class Mail includes domestic and international First-Class Mail.

*Volume is not shown for small categories of market-dominant mail, including single-piece international First-Class Mail, USPS mail, and Free Mail for the Blind.

Table 2: USPS Revenues: Results for Fiscal Year 2008 and Current USPS Projections for Fiscal Years 2009 and 2010

	Revenue (millions of dollars)			Revenue (percentage change from previous fiscal year)		
	Actual 2008	Projected 2009	Projected 2010	Actual 2008	Projected 2009	Projected 2010
First-Class Mail*	\$38,179	\$35,824	\$34,036	-0.6	-6.2	-5.0
<i>Domestic: single-piece</i>	19,396	17,878	16,592	-3.8	-7.8	-7.2
<i>Domestic: bulk</i>	17,880	16,963	16,526	-2.7	-5.1	-2.6
Standard Mail	20,586	18,183	17,843	-0.9	-11.7	-1.9
Periodicals	2,295	2,114	1,917	4.9	-7.9	-9.3
Package Services	1,845	1,743	1,662	1.8	-5.5	-4.6
Subtotal: Market-Dominant Mail*	62,906	57,864	55,457	-0.4	-8.0	-4.2
Market-Dominant Special Services	2,814	2,805	2,634	5.4	-0.3	-6.1
Competitive Mail and Services	8,382	7,986	7,544	6.4	-4.7	-5.5
GRAND TOTAL	\$74,968	\$69,623	\$66,652	0.0	-7.1	-4.3

Source: USPS.

^aFirst-Class Mail includes domestic and international First-Class Mail.

^bRevenue is not shown for small categories of market-dominant mail, including single-piece international First-Class Mail and First-Class Mail fees. Revenue other than revenue for market-dominant and competitive products and services is not shown, such as nonpostal products and services, real estate, appropriations, and investment income.

Appendix II: Status of 2008-2009 Proposed Area Mail Processing Consolidations as of May 15, 2009

	Area Mail Processing (AMP) study initiated	Public meeting held	AMP not approved	AMP approved
	Total AMP proposals: 33	12	4	4
1.	Aberdeen, SD, to Dakota Central, SD		X	
2.	Athens, GA, to North Metro, GA	X		
3.	Binghamton, NY, to Syracuse, NY			
4.	Bloomington, IN, to Indianapolis, IN			
5.	Bronx, NY, to Morgan, NY		X	
6.	Canton, OH, to Akron, OH			X
7.	Cape Cod, MA, to Brockton, MA			
8.	Dallas, TX, to North Texas, TX			
9.	Detroit, MI, to Pontiac, MI	X		
10.	Flint, MI, to Pontiac, MI	X		
11.	Hattiesburg, MS, to Gulfport, MS	X		
12.	Industry, CA, to Santa Ana, CA and/or Santa Clarita, CA			
13.	Kansas City, KS, to Kansas City, MO			X
14.	Lakeland, FL, to Tampa, FL			X
15.	Long Beach, CA, to Santa Ana, CA and/or Los Angeles, CA			
16.	Manasota, FL, to Tampa, FL			X
17.	Mansfield, OH, to Akron, OH	X		
18.	New Castle, PA, to Pittsburgh, PA			
19.	Oxnard, CA, to Santa Clarita, CA			
20.	Plattsburgh, NY, to Burlington, VT		X	
21.	Portsmouth, NH, to Manchester, NH	X		
22.	Queens, NY, to Brooklyn, NY	X		
23.	Quincy, IL, to Springfield, IL			
24.	Sioux City, IA, to Sioux Falls, SD		X	
25.	South Florida, FL, to Ft. Lauderdale, FL, and Miami, FL	X		
26.	Springfield, MA, to Hartford, CT			
27.	Staten Island, NY, to Brooklyn, NY	X		
28.	Utica, NY, to Syracuse, NY			
29.	Watertown, NY, to Syracuse, NY			
30.	Western Nassau, NY, to Mid-Island, NY			
31.	Wilkes Barre, PA, to Scranton, PA, and Lehigh Valley, PA	X		
32.	Winchester, VA, to Dulles, VA	X		
33.	Zanesville, OH, to Columbus, OH	X		

Source: USPS. See <http://www.usps.com/atf/amp.htm> for the current status of all proposed AMP consolidations.

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Mr. LYNCH. Thank you.

I now yield myself 5 minutes for questioning.

Admittedly, there have been some significant cost reductions already with the closing of some of these air mail facilities and other jurisdictions, but let me ask Mr. Galligan, the initial projection for the Post Office was that you were going to be able to save or reduce costs by about \$5.9 billion in the first year. Rather ambitious. As I understand it, at least the numbers that I have been getting in, that you are about 40 percent there, toward that number, but what I am concerned about is the effect of diminishing returns as we go forward. Are we still going to make the number, \$5.9 billion? Are we going to be able to achieve those savings? And, if you could—and I realize I only have 5 minutes—could you sort of itemize in broad strokes where we are going to achieve these savings and what the impact of those savings will be on the customers and the employees?

Mr. GALLIGAN. Yes, Mr. Chairman. The \$5.9 billion is predicated on our success in meeting the cost reduction levels that we have set out through the year, and we have had to adjust in terms of the negative revenue situation we have experienced.

Mr. LYNCH. Mr. Galligan, could you just pull that mic a little bit forward?

Mr. GALLIGAN. OK.

Mr. LYNCH. There you go. Thank you.

Mr. GALLIGAN. I would like to recap, we have significant savings in our mail processing plants, not so much in terms of the physical infrastructure, but in the work force environment. We have attrited about 33,000 positions versus the same period last year, which about 9,000 of those positions came through employees opting to take an early out with our voluntary authority from OPM. So that labor savings constitutes the principal achievement of the levels you see year-to-date.

As it relates to our mail processing environment, we have gone through with our existing facilities an extensive compression exercise opportunity to react to the fact that ad mail has declined so precipitously. Just last quarter, for instance, our standard flat volume, catalog volume, dropped 29 percent versus the same period last year. So that mail historically has been worked on what we call tour 2, our day shift. Because that volume is no longer there, we have compressed and changed work shifts so that our critical operating times are met; outgoing mail is completed by midnight, the destinating mail that reaches our delivery units is completed by 6, 7 a.m. So that compression of people has constituted significant savings.

In the delivery arena, two major initiatives, the NALC, our National Association of Letter Carriers, has been very supportive and proactive working with us on adjusting our work rules around route inspections and have really had a breakthrough earlier this year, a more recent breakthrough whereby we use passive data, we work with our local unions, and we actually are able to quickly adjust routes due to this agreement. We have taken out over 2,500 routes related to that agreement starting up, and we see many thousands of additional routes ongoing. As the volume has essen-

tially vaporized, we will expand the street portion of routes and limit the office time.

In our post offices, likewise, we have benefited from rescheduling in the downsizing and capturing attrition, all the while we have reduced overtime significantly in our plants and post offices. Some levels are down in the zero to 1 percent range.

So those are the principal areas that we have been able to achieve those savings.

Mr. LYNCH. While I still have a minute left, the idea connected to H.R. 22, that we have some forbearance in terms of the contributions currently required for retiree health benefits, if you are going to move 150,000 employees into retirement at the same time that you are reducing contributions you are reducing direct contributions and taking out of the Trust Fund, what does that do to the equation where you have a higher utilization rate? Now you have 150,000 people that used to be working; some of them at a more urgent timeframe than we had before, how does that work out for H.R. 22, that whole phenomenon?

Mr. GALLIGAN. Well, the H.R. 22, the \$2 billion relief, is in effect a short-term cash crunch issue, and absent the \$2 billion relief this fiscal year, our CFO basically, if everything is perfect on our cost reduction and volume doesn't slide any worse than the projections at this point, absent the H.R. 22 relief, we would run out of cash to the tune of \$1.5 billion by the end of this fiscal year. So that is the need for the short-term immediate relief around cash.

In terms of the longer aspects, Mr. Chairman, I think I would have to go back to our finance folks and look at the actuarial tables, because certainly the pool of 150,000 eligible people is a good news story from our ability to adjust things like our network, our downsizing, our delivery frequency, and that would give us the chance to move in a more painless environment through an attrition model. But I wouldn't hazard a guess on what actuarial burdens that might place on the long-term—

Mr. LYNCH. OK. That is fair enough. Thank you, Mr. Galligan.

I now yield 5 minutes to the ranking member, Mr. Chaffetz, from Utah for 5 minutes.

Mr. CHAFFETZ. Thank you, Mr. Chairman.

Following up on the H.R. 22 question, Mr. Galligan, what happens if it does pass? What happens if it doesn't pass? We have to deal with both realities. What are the plans to deal with those scenarios?

Mr. GALLIGAN. I guess, Congressman, let's start at the if it does not pass provision. Based on our forecast, we would run out of cash, even borrowing \$3 billion, as our statutory requirements are allowing for this year, we would come upon, the last day of the fiscal year, \$1.5 billion short of paying our obligation to the health benefits. There becomes a choice when you are the brink of insolvency. Do you pay employees? Do you pay supplies? Or do you not pay this \$5.4 billion or \$5.5 billion? By law, essentially, we break the law by not paying that. Not a place we want to be.

Mr. CHAFFETZ. And when do we cross that threshold?

Mr. GALLIGAN. September 30, 2009, last day of our fiscal year. That is my understanding.

Mr. CHAFFETZ. If it were to pass, what kind of assurances can you give us that you will continue to make the types of operational efficiencies come to reality that—and, by the way, I have to tell you, from my personal vantage point, I think the Postal Service has done a quite remarkable and dramatic job of cutting costs along the way. I think in many ways you should be commended and patted on the back. There is certainly criticism along the way, but the progress that has been made—and hats off to Postmaster General Potter, along with the staff and whatnot, but what assurances can you give us that type of commitment to efficiency would continue to propel above and beyond what would happen with H.R. 22, should it pass?

Mr. GALLIGAN. Well, I think this fiscal year and this cash situation, I do see some risks. I mean, we are projecting the ability to cost cut \$5.9 billion. We are on track to do that, but there are presumptions in that based on the cost of energy, for instance.

Mr. CHAFFETZ. What is your biggest worry?

Mr. GALLIGAN. Well, my biggest worry right now is the gas pumps in the last couple weeks have ratcheted up, and we know, I believe, it costs us about \$9 million a year per penny of increase, so our ability to cost cut in the calculations on that savings include some presumptions on how fuel prices will run for the remainder of the year. We have some significant savings that we believe are occurring based on the same period last year, but if fuel gas prices cause us a problem, that could put a little imbalance there. If volume falls greater than the 180 billion piece level we forecasted, that puts more pressure to break even. Even with the \$2 billion, essentially, if we miss those cost cuts and/or revenue falls below the 180 billion piece volume level—and we have not seen any light at the end of the tunnel on volume turnarounds, if those two elements mistarget, we are still at that cash position at September 30th.

Mr. CHAFFETZ. Let me ask the last question, Mr. Chairman. I have just a moment.

Mr. Galligan, it is one thing to just keep continuing to cut costs, but what are you doing to actually market and grow the services and expand the market share and actually market the Postal Service as a viable alternative to some of the competitors that may be out there? What are we doing proactively to make the Post Office more useful and more relevant in people's lives?

Mr. GALLIGAN. Postmaster General Potter has restructured our marketing organization to a products group, we have a president of products, and he is working on all opportunities of where we can grow and rebound; and I think if you step back and look at the megatrend, as was highlighted in opening comments, there is a megatrend in first class mail away from mail correspondence and mail transactions. That has moved and will continue to move to electronic diversion, the first class correspondence to email—

Mr. CHAFFETZ. I know the challenge, but we need a little bit more than Homer Simpson to get us out of the challenges we are facing.

Mr. GALLIGAN. Homer is not the cure, obviously.

Mr. CHAFFETZ. Exactly.

Mr. GALLIGAN. But there are some positive things. We believe, going forward, the future in mail is a rebound in advertising dollars. One of the curious things is we have actually seen a glimmer of hope that despite the fact that ad dollars spent has declined probably 30 percent nationally, we have actually grown our share of the pie, but a dramatically reduced pie, essentially. So we see some percentage growth to about 22 percent of ad dollars. So our product people are going after ad mail.

Mr. CHAFFETZ. We are out of time here. Let me just say, Mr. Chairman, I appreciate that. I would personally love to see, and would challenge and hope, that we would get much more creative, and I would love to see and be engaged in what type of ideas, big ideas that we could have to move us in the right direction.

Thank you, Mr. Chairman.

Mr. LYNCH. Thank you.

Mr. Galligan, just a followup on the gas price. Do we not make long-term fuel contracts on behalf of the Postal Service? That is one just on this fuel issue. And is the Post Office, in absence of any of those long-term contracts, are we impacted by the State increases that are being considered on the gas tax?

Mr. GALLIGAN. Yes, Mr. Chairman. We are impacted at the State level because much of our fuel purchases are from local fueling stations, so there are implications around the total cost of gasoline. We strategically have not, in the past, and we have shied away from it, we have not gone into options around fuel. I know some airlines have done that strategically well for years. We have not gone out there in futures and purchased long-term contracts to basically hedge on that, so we pay as we go, essentially.

Mr. LYNCH. OK, thank you.

The Chair recognizes Ms. Holmes Norton for 5 minutes.

Ms. NORTON. Thank you, Mr. Chairman. What I am trying to do is, as the title of the hearing implies, whether or not savings can make a difference, in terms of saving the institution. We just had, Mr. Waller, Mr. Galligan, an increase in the price of the first class stamp, isn't that true? Can we look forward to annual increases in the price of stamps for first class mail, and what effect has that had or is expected to have?

Mr. GALLIGAN. Yes, Congresswoman. We have, under the new law, the ability to link annual price increases, smaller, incremental price increases on our mailing products.

Ms. NORTON. Do you anticipate that the increase in revenue will offset or be more than the loss in business?

Mr. GALLIGAN. Absolutely not in this case. The projection coming off of this recent price increase is that it will bring us over \$600 million of new revenue from now until the end of the fiscal year, and in the full cycle, it is worth about \$1.5 billion.

Ms. NORTON. The increases were?

Mr. GALLIGAN. The increase that just went in, right.

Ms. NORTON. So it contributes, then, or it is a desperation move that you are going to have—is this the first time you have been able to engage in annual increases?

Mr. GALLIGAN. No, it is not. This is actually—from the law in 2006, we had one adjustment under the old rate regime. In 2007, 2008, and 2009 have been the first. And they are linked—

Ms. NORTON. Seven, eight, and nine?

Mr. GALLIGAN. Eight and nine are actually under the new law, and they are linked, they are essentially capped at the CPI level under the law. So we will raise rates at the CPI level annually.

Ms. NORTON. That is just the rate. But do you anticipate that, given the problems you are having, that these annual rates are going to continue?

Mr. GALLIGAN. Well, the annual rate is allowed to continue at the CPI level. If CPI, for instance, through the next number of months, is almost at zero, that means we would not be able to file any kind of price increase next May.

Ms. NORTON. You testified, Mr. Galligan, that there was a 15 percent decline. I would like you to compare that with prior years. We are looking here at a very unusual period. How does that compare with the fall-off and the deficits in the Post Office?

Mr. GALLIGAN. Actually, if we look back last year, I believe we were down about 4 percent to the previous year. 2007 we were almost down the same period last year. As a matter of fact, in early 2007, we were still seeing some very positive growth in the package business and in the ad mail business. First class has been on a 5 percent erosion for many years.

Ms. NORTON. So we have gone from 4 or 5 percent to 15 percent in this single period that we are looking at. Again, we hope that this is a very irregular period, but it does give some indication by comparison with what you are going through now. Have you engaged in any layoffs, or have you been able to do all of your downsizing in personnel by early retirements, reassignments, and the like? Do you anticipate that there will be a need for layoffs in the future?

Mr. GALLIGAN. Well, we have not resorted to layoffs in terms of any of our network changes or consolidation efforts; they have all been done through attrition and employee repositioning. Supplemental work for us, temporary employees—

Ms. NORTON. Are you hiring people?

Mr. GALLIGAN. No, Congresswoman, we have been in a pretty hard freeze for some period of time, with the exception of certain skills we need what are called electronic technicians, high tech jobs to maintain our equipment. We have done some hiring in specialized skills just to keep the basic—

Ms. NORTON. So you have an aging work force, essentially.

Mr. GALLIGAN. Right. Very much.

Ms. NORTON. If, somehow—and obviously there would be lots of howls up here, because not everyone is sitting on this subcommittee and hearing what the Postal Service is going through, but if you are reduced to a 5-day delivery schedule, would that be another nip and tuck or would that have a structural effect on your decline?

Mr. GALLIGAN. That was a question that Chairman Davis asked me last time I testified, in 2007, and at that point in time volume was very strong and stable. I would have to say, quite honestly, it goes a little beyond the nip and tuck because it is Congress's authority to decide what our universal service obligation is.

Ms. NORTON. No, I am talking about the effect on your revenue, on your business. I mean, it is very serious, we understand, be-

cause it is a huge change from what people expect. I am not sure it as large a change from what people expect, given the plethora of ways we get information today, but it is a change. You have testified, for example, you are delivering many more households, even though you are experiencing this decline, and that has been the case before. The number of households grow and, therefore, you got your 6 day delivery on even more households. If it was reduced to a 5-day delivery, what would be the dollar effect, what would be the savings effect of that kind of change?

Mr. GALLIGAN. OK, this is on the table for discussion because we believe it the one multi-billion dollar annual savings opportunity that—

Ms. NORTON. It is a what, sir?

Mr. GALLIGAN. Multi-billion dollar.

Ms. NORTON. But you don't know how much?

Mr. GALLIGAN. We have ranges internally around, without loss of revenue, \$3.5 billion, depending per year—

Ms. NORTON. Annually?

Mr. GALLIGAN. Annually. Based on the scope, I think it could go as high as \$4 billion savings. Now, what needs to be estimated is what negative impact that might have on top line revenue, and the PRC has done some analysis on that. We currently have a cross-functional team working on all the aspects and kind of all the moving parts if we went to a 5-day operating model, and we will have probably a plan within the next 3 to 4 weeks to scope out all the costs. But they are interchangeable. We essentially have looked at this future model in the respect that we would still want to maintain Saturday service at retail; we would still maintain PO box service—

Ms. NORTON. You would still maintain it at retail?

Mr. GALLIGAN. At retail.

Ms. NORTON. Because?

Mr. GALLIGAN. Because the American public depends on the Saturday morning visit to the post office to pick up packages—

Ms. NORTON. Because many of them are able to come only on Saturday.

Mr. GALLIGAN. Right. That is a high traffic point. So we would want to maintain that. We would maintain 7 day a week service for remittance volumes moving into the banking system, because we know what that means to their cash float. We would have to make those considerations. We would maintain—if someone purchases PO box service, we would maintain that 6 days a week. And I think the PO box service goes to the fundamental, at least operational, structure problem, because what we have is sharply falling demand by the senders of mail. That is the \$12 billion fall.

At the same point in time, the recipient demand is fixed, essentially based on Congress's authority, universal service; and that recipient demand is not paid for, and I would venture to guess the American public would not want to pay for that through appropriations or a delivery fee of any sort. So I think your policy debate around that value of multi-billion savings and impact really cuts to that big piece. We have cost reduction efforts in the hundreds of millions around network rightsizing and station branch closing, but

the one big ticket structural operational change relates to that Saturday delivery frequency and who pays.

Ms. NORTON. Thank you, Mr. Chairman.

Mr. LYNCH. Thank you.

The Chair now recognizes the gentleman from California, Mr. Bilbray, for 5 minutes.

Mr. BILBRAY. Mr. Chairman, I, for the record, want to state I have a family member who is part of the Commission. I have not had extensive discussion with him, just casual holiday conversation about the challenges that the Postal Service makes. So I just want to clarify that. I guess there are not too many of us who spell our name this way, so it is a dead giveaway.

Mr. Chairman, let me just say to the panel members, you know, for 30 years I have been in government one way or another. I was a 27-year-old mayor facing Proposition 13 and saw some real tough decisions have to be made, down to the abolition of the police department. You talk about taking some heat, you try that. But, boy, I tell you I wouldn't want to be in your seat no matter what. The Postal Service is facing one of the toughest challenges I have seen anybody in government service ever have to face, and I would just like to say that you guys are going to have to be given the benefit of the doubt for a whole lot of things.

I think the challenge here is that we have a constitutional obligation. I am not so sure that constitutional obligation requires that it be a government employee who delivers mail, but it does require that we provide some kind of service.

A good example, Mr. Chairman, that we don't talk about is that the same section that requires we hold a postal system also requires we maintain postal roads, and we don't physically—the postal system and the Federal Government doesn't physically own those roads, but we make sure the service is there; and I think that is one of those things we have to be open-minded about.

The gas tax issue, those of us in local government don't have to pay it, but it is a year retention of your assets before you are reimbursed for gas taxes?

Mr. GALLIGAN. I don't believe we are reimbursed.

Mr. BILBRAY. You are not reimbursed?

Mr. GALLIGAN. No.

Mr. BILBRAY. Well, I will tell you, first of all, Mr. Chairman, that one really sticks out, because why we have our military and local government exempt, when the postal system ends up looking like the deep pockets? So I think that is one of those things that we need to seriously look at.

The other thing I would ask us just to be aware of is the ethanol mandate, the 10 percent by volume constitutes a \$6 a gallon impact on the consumer. This is something that maybe we can raise through this committee, that when you look at the postal system, this is not just something that affects other people, it is affecting us and our obligations under the Constitution.

When you get around to, hopefully, some day, being able to hire on new hirees, are you looking to split role?

Mr. GALLIGAN. Congressman, could you explain that, split role?

Mr. BILBRAY. Split role basically is that you have a whole separate compensation package for new hirees, so you basically sepa-

rate the traditional employee from the new employee, so you are entering into a different contract with new hires as of a certain date than the one you committed to with the older ones.

Mr. GALLIGAN. OK. We kind of refer to that as a two-tier structure.

Mr. BILBRAY. Two-tier.

Mr. GALLIGAN. Essentially, that is part of our collective bargaining agreement. We are a year and a half away from that point with our unions, but certainly our labor relations folks and human resource folks who deal with that could consider that.

Mr. BILBRAY. It is funny, on my notes I have split roll/two-tier. It is this argument that goes around.

We are really at a situation where it is sort of interesting that the advertisement segment of the service was really an addendum that took advantage of the opportunity that we were delivering letters 6 days a week to the public, and that why not have them carry advertisements at the same time. That whole world has kind of turned topsy-turvy, right?

Mr. GALLIGAN. Right.

Mr. BILBRAY. So now the primary obligation/responsibility has almost evaporated because of government action working with the private sector at creating alternatives, and now we are looking at maintaining status. Do you really think there is some way, a practical way within the next couple years to maintain 6 day delivery?

Mr. GALLIGAN. Personally, Congressman, as I said in my written testimony, I believe the 6-day frequency, which is essentially the Saturday delivery day, it is not a question of if, but when. There is just simply not enough demand for mail. If you look at how it is paid and ask all stakeholders, I don't believe the mailing industry would be willing to take a double-digit price increase to preserve it. I don't believe our unions would take a double-digit wage concession reduction to the payroll to preserve it. And in terms of your seat on this committee, I think you represent the American public, and I don't think the American public would want to pay out of their tax dollars a direct appropriation to preserve that.

Mr. BILBRAY. So we are just saying the complications that going to the five will create things like the fact that our relief carriers now are not going to have that niche of market to be able to go in there. We basically better plan on how to address the problems created going to a 5-day delivery, rather than trying to stave off the inevitable down the line.

Mr. GALLIGAN. And I would just like to point out that I believe the point in time from a labor relations position is probably at no better time than right now, and the reason I say that is contractually, with our NALC, we have temporary employees to the tune of 14,500. We still have some overtime levels that are able to be reduced in the delivery world because of the frequency, and the other piece of that is we have about 50,000 part-time flexible schedule carriers that would have reduced hours until such time that attrition caught up in the carrier world and those hours could come back.

Mr. BILBRAY. Well, thank you very much.

Mr. Chairman, all I have to say to the panel is the only thing worse than having to be on the management side of this is being

the men and women who are actually working out there in the field and actually got into a profession with the assumption that what could be more secure than being in the mail service; and history had proven this was the best, one of the most secure points of employment possible, and, sadly, history has proven us wrong on this and there are some real challenges out there.

I appreciate it and I yield back.

Mr. GALLIGAN. Thank you, Congressman. I think we are the best middle-class employer in the country, and we want to stay that way. My father came out of World War II and became a clerk in New Haven, CT, and I came out of high school and became a carrier in New Haven, CT, and that is where we sought our careers and we want to keep it that way.

Mr. LYNCH. I thank the gentleman. Following the disclosure of Mr. Bilbray, I must also disclose, as I have on multiple occasions, that I currently have about 17 members of my extended family who work for the U.S. Postal Service. A number of those are retired, God bless them, but a number of those, two of my sisters currently are working for the Post Office, a bunch of my cousins, my brother-in-law is a carrier. The upside of that, I have been hearing these issues discussed at the dinner table for many, many years. On the downside, management has not been at the table. [Laughter.]

Mr. GALLIGAN. Is that an invitation, Mr. Chairman?

Mr. LYNCH. Until now, until now.

The Chair recognizes the gentleman from Missouri for 5 minutes, Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman. I find it fascinating that you have so many members that depend on the U.S. Postal Service in your family. That is probably a good thing.

Let me start with Mr. Galligan. In your testimony, you allude to significant limits on your authority to develop new products. Give us some examples of new products that would be created if these limits were lifted.

Mr. GALLIGAN. Congressman, I am the operations guy, so I get this secondhand from our product group, but I think the law has provided new opportunities. As I was highlighting before, we are pursuing a summer sale at this point in time on ad mail. If we can get new ad dollars on new mail, we can do those things. I think the fact that—and it is more of a governance issue—our need to bring products to market do have to go through a regulatory commission—I mean, we are modeled somewhat as a regulated monopoly, that we have a postal regulatory commission—that really governs what we can do in our retail space, for instance, what products can we put on our retail counter, so we do have to go through those kinds of processes to bring new products to market.

But within the scope of the law there are new opportunities. The sale issue will be an interesting one to see if we can drive new revenue; ad decisions to maybe move ad dollars, scarce ad dollars from TV or radio or newspapers into the mail and get some business here in the back end of the year, where our fixed costs are high and our volume is very low. But it is a process that is typically in the private sector; you are not going through the rigors that we would have to go through.

Mr. CLAY. Thank you for that answer. How many employees do you estimate will need to be terminated due to an end to Saturday deliveries?

Mr. GALLIGAN. Congressman, that goes to my previous point. The fact that our collective bargaining situation currently is set up with about 14,500 employees, temporary employees, these are not career employees, those would immediately be shed, and we could quickly move to that if we are granted the authority. The overtime reductions and about 50,000 employees are what we call part-time flexibles, their hours would be reduced and we could avoid layoffs completely with the carrier crop.

I am concerned that if we move out in the future and hit this wall after our authority to use those 14,500 temporary employees is gone, after overtime is down to zero, we would then only be able to achieve savings in those out-years with layoff.

Mr. CLAY. The more than 1,400 supervisors and management positions are being eliminated to reduce costs. How does the USPS determine which employees will have their positions eliminated?

Mr. GALLIGAN. Congressman, the burden is not all carried on our rank and file, our bargaining unit member; we went after, in a very aggressive way, white collar jobs. We set targets at 15 percent reduction in white collar jobs in our districts; we have consolidated six districts completely around the country to save X hundreds of positions; and in our plant environment, because, interestingly enough, in our plants, since the year 2000, we have cut our work force by one-half. That is the amount of attrition with technology, volume declines, etc. In that same time we needed to play catch-up around how many supervisors are needed for that lesser work force. I mentioned earlier that our day shift environment, because there is limited ad mail, has a bear minimum, so what we did is we calculated what we call a 22:1 ratio on white collar jobs in our plants and we reset our base of managers on that calculation.

Mr. CLAY. OK, thank you for that. Why hasn't the Postal Service offered any incentives to employees for taking early retirement? And are you working with the unions to evaluate the types of incentives that the Postal Service would consider?

Mr. GALLIGAN. That is probably going to be the easiest question I get this year. When we are facing potentially a \$1.5 billion cash position, we do not have the liberties right now to make those kinds of decisions to even consider and offer any sweeteners or incentives this fiscal year.

Mr. CLAY. So you just think they are going to walk away from their jobs?

Mr. GALLIGAN. Well, we actually have a projection based on a year-to-date in this pool of 150,000 people that, by end of year, we should be down 43,000 management and craft positions nationally. That is the track we are on projecting. And that is a sizable reduction in work force. Even for an employer as huge as the Postal Service it is significant.

Mr. CLAY. So those 43,000 will be voluntary.

Mr. GALLIGAN. Right.

Mr. CLAY. Through attrition and retirement.

Mr. GALLIGAN. Right.

Mr. CLAY. Thank you.

Thank you, Mr. Chairman.

Mr. LYNCH. I thank the gentleman.

Rather than do another round of questions, I do recognize that our questioning doesn't necessarily hit on all the pertinent points that you would like to share with the committee, so at this point, even though, Mr. Galligan, you have had plenty of exercise this morning, I am going to ask you if you have 5 minutes where you would like to inform the committee of any topics that we did not raise or simply amplify a point that you might have touched upon earlier in your discussion, and then I will follow to Mr. Waller, so you have 5 minutes to think about.

I notice there may have been questions to Mr. Galligan, but Mr. Herr and Mr. Waller, I saw you writing, so you might have your own ideas about questions that were asked to Mr. Galligan. So I am going to give you each 5 minutes just to further elucidate certain points.

Mr. GALLIGAN. Well, Mr. Chairman, certainly, the key points are immediate cash crunch. The \$2 billion relief from H.R. 22 we desperately need and support that bill.

From my jurisdictional point of view, I think understanding from Congress around our need to pull back this infrastructure, whether it is a plant closing or a consolidation, those are necessary choices that we have to take because of the decline in demand for mail.

In our station and branch environments, and I know from the last hearing you mentioned it, we need to closely look at where we have brick and mortar facilities within very few miles or even walking distance of each other, to be able to go and analyze and do the right thing for our urban customer base. They are well equipped to take their services through alternate access, Web site, USPS.com, other avenues. We need Congress's support and understanding on that.

And foremost is if there is one big lever that needs to be pulled, it is around the 5-day service, it is around understanding what we would not do on Saturday, how that would change the service standards and how much savings would come out of that effort with also some very reasonable estimates to what that might do in terms of mail volume.

And I think that kind of summarizes my views operationally. Thank you, Mr. Chairman.

Mr. LYNCH. Thank you, Mr. Galligan.

Mr. Waller, you are now recognized for 5 minutes.

Mr. WALLER. In regard to, first, the questions, I think Ms. Norton was asking about the estimated cost savings and what it would do the revenue or the volume reduction, maybe, because people stop using the mail. The Commission, in its estimate of the \$1.9 billion annual savings from going to 5 days, did assume a reduction in volume, a minor one, 2 percent, given what we are seeing lately. Maybe that is a little bit too small, but a 2 percent reduction at least built in, and the models can do what-if analyses to do more. That accounted for about \$600 million of the difference between the Postal Service's larger estimate, because they didn't include that.

The other point I think around the carrier issue that is very important is that mail processing is about the costs there, the labor costs, at least, vary with volume, almost 100 percent up and down.

It can be done that way, and the Postal Service has been very remarkable in maintaining that. The carriers, on the other hand, it is about 50 percent variable, so that, as volume drops, you can't automatically lose as much mail by just being more efficient in your delivery, because you have that great fixed cost of going around the route every day, whether there is a lot of volume or a little volume; and that is why it makes it so attractive to do a reduction in a day of delivery, because you eliminate that fixed cost.

The other issue that was raised by committee members here is the finding new forms of revenue. The PAEA did restrict the Postal Service to postal activities, related to handling mail, did not want them going into a lot of new initiatives not related to postal; and the Commission has had to go through all their related services and say is it a postal or non-postal, is it grandfathered, etc. But we have really been working very hard, the commissioners, with the Postal Service to make sure, as they come up with new initiatives—and the new initiatives are like the summer sale or the new logistics thing that was just approved to allow special loading of less than full trucks, a new type of service, and all these negotiated service agreements. One of the things that we do is turn it around very quickly, do not make it a long, lengthy hearing, so that if they reach an agreement with a mailer for a particular sales season, that the Commission works to meet either 15 day, 30 days, whatever is the legal requirement for notice, and has been very successful in that regard. So in the sense we welcome all the more they can have. The Commission is working very hard not to be a bottleneck on the approval of any new initiative. And in that sense I think that we would like to see, the Commission would like to see all sort of new revenue opportunities develop. But they are restricted by the law to postal activities, they can't go afield.

Mr. LYNCH. Thank you.

Mr. Herr, you are now recognized for 5 minutes.

Mr. HERR. Thank you. I think reflecting on some of the discussion and questions today, we applaud the Postal Service's efforts to achieve cost savings through work hour reductions. That is needed and necessary given the volume reductions that the Postal Service is facing this year. But that said, that is not a shortcut for longer term restructuring of the retail and processing networks. We have had discussion today about that excess capacity and where it exists. There are opportunities there. The Postal Service mentioned today in their statement about 3,000 potential facilities there. In some work we did for the Senate that came out about a year and a half ago, we had a methodology that looked at how counties are served, and that methodology might be a useful one in looking at those kinds of opportunities that are there.

I think also efforts to increase efficiency. I believe that people say in this kind of operation you can't just cut, they also have to look at ways to make things more efficient, and the work we have underway for this subcommittee looking at delivery efficiency, work with the letter carriers, there are opportunities there to make sure the routes are structured in the most efficient way possible. That is very important. There is also some new technology that is being rolled out with the flat sequencing. One of the things that will enable is getting the carriers on the street more time, rather than in

the office sorting mail. Those are things that will ultimately help the Postal Service achieve additional efficiencies and be able to deal with the reduced volume, but also reduce costs as well, at the same time. So we would encourage those kinds of efforts as well.

The last thing, there was some mention today about an additional study that is coming out in 2 to 4 weeks, looking at the impact of 5 day delivery, and that is something that we have called for in the last several hearings we have done this year. I think that is very important for transparency. I think Ms. Norton mentioned the importance of having an understanding of the costs and the benefits of something like that, and I applaud the Postal Service in taking those steps to help people understand, both the mailing community and individuals, what that would mean for them so they can plan for that kind of change should it become necessary.

Mr. LYNCH. I just want to ask you about that last point you made about the study. There were two numbers out there as to what might be saved by this reduction to 5 day delivery, one was \$1.9 billion, the other was considerably higher. This study, what did it reveal, or is it concluded yet?

Mr. HERR. The analysis, I believe this is what Mr. Galligan mentioned that the Postal Service has underway to look at what those costs and benefits are.

Mr. LYNCH. All right.

Mr. HERR. And that is something we have been on the record as mentioning is important.

Mr. LYNCH. Well, that number serves as the underpinnings of what decision will be made by the committee if it is reached. That is a very important number, so we want to make sure we get that right.

In conclusion, I want to thank you each for attending here and helping the committee with its work. I am sure there are some Members who wished to attend today, but they are in other hearings, so I am going to allow them to submit questions to you in writing and allow those responses from you as well in writing. But I want to thank you again and bid you good day.

The committee is going to recess for about 3 minutes until we get the next panel up, and then we will resume. Thank you.

[Recess.]

Mr. LYNCH. Again, welcome and thank you. It is the custom of this committee to ask those members who are about to give testimony to stand and raise their right hands.

[Witnesses sworn.]

Mr. LYNCH. Let the record show that each of the witnesses has indicated in the affirmative.

Your entire statements have been entered into the record, and I will just do a brief introduction of our second panel.

Mr. William Burrus is president of the American Postal Workers Union. Mr. Burrus is also a member of the Executive Committee of the Union Network International, which is a global federation of unions that represents postal and other service workers.

Mr. John Hegarty is the president of the National Postal Mail Handlers Union. Prior to becoming national president, Mr. Hegarty served as president of Local 301 in New England, which serves my

home district, which is the second largest local union affiliated with the Mail Handlers Union.

Mr. Dale Goff is in his 39th year with the U.S. Postal Service. He began as a postal assistant in New Orleans. Mr. Goff has been a member of the National Association of Postmasters for 29 years, where his positions have included State president, national vice president, and national president.

Welcome, gentlemen. As you have been frequent fliers to this committee in the past, I don't have to explain the rules.

Mr. Burrus, you are currently recognized for 5 minutes.

STATEMENTS OF WILLIAM BURRUS, PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL-CIO; JOHN HEGARTY, PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION; AND DALE GOFF, PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

STATEMENT OF WILLIAM BURRUS

Mr. BURRUS. Thank you, Mr. Chairman. Our friend, my friend, Bill Young, is not present. Do I get his 5 minutes?

Mr. LYNCH. No, he gets his in the next hearing. But thank you.

Mr. BURRUS. Mr. Chairman and members of the subcommittee, thank you for affording our Union the opportunity to express our views on the important topic of this hearing, especially at this time of reduced mail volume and revenue.

The postal community is unanimous in our conclusion that immediate relief from the obligation to fund retirees' healthcare benefits from the postal operating budget is paramount. We need your help in navigating the legislative process to ensure that the Postal Service receives this desperately needed change in policy. Without it, the Postal Service will be unable to adapt and to survive.

But adjusting the payment method of retiree healthcare benefits is just one option the Postal Service is pursuing, and it is only a short-term fix to stave off imminent collapse; it will not address the long-term challenges.

The Postal Service is also engaged in many other efforts to reduce costs, even as it overlooks the fundamental continuing cause of its financial difficulties. These actions are having a detrimental effect on service and often generate little or no savings. Postal attempts at network realignment are a case in point. The Postal Service first announced it would overhaul the mail processing network when it released its original Transformation Plan in April 2002, but it ignored demands from legislators and workers for details about where, when, and how consolidations would take place.

To date, the Service has refused to provide specifics of this Plan or the criteria it relies upon when selecting facilities for consolidation. Many of the early announcements of consolidation generated strenuous opposition from workers and affected communities. In 2006 and 2007, 37 of the 50 consolidations were terminated, placed on hold, or reversed. During this time period, the Postal Service was the subject of severe criticism by the GAO for their lack of transparency in its planning efforts and for failing to allow for sufficient input from workers, citizens, and public officials in affected communities.

The Postal Regulatory Commission also disapproved of the Service's consolidation efforts. And to make matters worse, there is no conclusive evidence to support Postal claims that plant consolidation will lead to greater efficiency or savings. And despite management's assurance to the contrary, citizens, community leaders, small business leaders, and postal workers are concerned that a realigned mail processing network will reduce service and delay the delivery of mail.

The danger is clear: If service to small businesses and individual citizens is permitted to decline, it could lead to the demise of the institution. Regrettably, the Postal Service has consistently failed to share an overview of its network realignment plans with the American Postal Workers Union, despite repeated requests and a national level grievance. Postal officials, however, have given an in-depth presentation about the plan to the Mailers Technical Advisory Committee, an organization representing the interest of major mailers. Management has finally scheduled a union briefing that is scheduled to take place next week.

However, even if we overlook the faults, the Service's cost-cutting efforts are subverted by its postal rate strategy, which dramatically reduces revenue from major mailers without a corresponding reduction in service. And I note the testimony that preceded this panel there was not a mention about the rates.

The Postal Service business model is based on the erroneous premise that discounts for large mailers increase volume. However, review of the effects of three decades of rate manipulation reveals that discounts have failed to boost first class volume.

The graph appended to my testimony shows the effect of rate changes on volume and demonstrates that despite disproportionate increases in postage discounts, volume has been unaffected.

This flawed rate policy subsidized large mailers at the expense of American citizens and jeopardizes the viability of the U.S. Postal Service. Rates for major mailers have been manipulated to the extent that they pay as little as 76 percent of the official first class rate for the same level of service.

A two-tiered rate structure has evolved, and with the implementation of the previously mentioned cost-cutting initiatives, two levels of services are emerging, one for the large mailers and another for private citizens.

The second appendix to my testimony, Attachment No. 2, illustrates the discrepancy. Letter No. 1 is the typical first class business letter that qualifies for the work share discount. Because the mailer affixed the bar code that appears at the bottom of the letter, the Postal Service reduced the first class rate from 44 cents to 33.5 cents, a discount of 24 percent.

Letter 2 is also prepared by the business mailer with the bar code placed at the top of the address window. However, the postage is paid by the recipient of letter No. 1, the average American citizen. The cost, 44 cents, the full first class rate, even though the letter also contains a barcode and is prepared identically to the discounted piece and requires the same amount of work by the Postal Service.

The efforts to reduce costs, plant consolidation, massive employee reassignments, reduced retail hours, and the reduction of neighbor-

hood collection boxes will have a devastating effect on service, and faulty rate strategy has drained much needed revenue, threatening the viability of the institution.

Passing H.R. 22 will provide the Postal Service immediate relief, but the long-term solution to the crisis is to end the policy of subsidizing large mailers at the expense of the American citizens and the Postal Service.

Without congressional intervention, the noble mission of the Postal Service "to bind the Nation together through the personal, educational, literary, and business correspondence of the people, and to provide prompt, reliable, and efficient services to patrons in all communities" will be no more than prose. We can do better than that and we need your leadership, Mr. Chairman, to achieve those objectives.

[The prepared statement of Mr. Burrus follows:]

APWU CONGRESSIONAL TESTIMONY

**American
Postal
Workers
Union,
AFL-CIO**

**WILLIAM BURRUS
PRESIDENT**

Before The

**SUBCOMMITTEE ON FEDERAL
WORKFORCE,
POSTAL SERVICE AND THE DISTRICT
OF COLUMBIA**

**"Nip and Tuck: The Impact of
Current Cost Cutting Efforts
On Postal Service Operations and Network"**

**TESTIMONY OF WILLIAM BURRUS
PRESIDENT
AMERICAN POSTAL WORKERS UNION,
AFL-CIO**

May 20, 2009

1300 L Street, NW
Washington, DC 20005
202-842-4250
Fax 202-842-4297
www.apwu.org

Mr. Chairman and members of the Subcommittee, I thank you for affording our union the opportunity to express our views on the topics of this hearing: options that should be considered in rightsizing the network; the removal of operational costs, and the impact of cuts on service. These are subjects of importance at this time of reduced mail volume and revenue.

I extend a special thank you, Mr. Chairman, for your attention to postal issues at a time of crisis for the USPS and the American citizens who rely on our services.

The postal community is unanimous in our conclusion that immediate relief from the obligation to fund retirees' healthcare benefits from the USPS operating budget is paramount. The annual payment of more than \$7 billion is beyond the scope of available resources. Without relief, the Postal Service will be unable to meet its financial obligations.

We need your help in navigating the legislative process to ensure that the Postal Service receives this desperately needed change in policy. Without it, the USPS will be unable to adapt and survive.

But adjusting the payment method of retiree healthcare benefits is just one option the USPS is pursuing, and it is only a short-term fix to stave off imminent collapse; it will not address the long-term challenges confronting the Postal Service.

The USPS is also engaged in many other efforts to reduce cuts, even as it overlooks the fundamental, continuing cause of its financial difficulties.

Current actions include:

- Plant consolidations
- Massive employee reassignments
- Reduced retail hours
- Reduction of neighborhood collection boxes
- Elimination of postmarks

These actions are having a detrimental effect on service, and often generate little or no savings.

USPS attempts at network realignment are a case in point.

Plant Consolidation

The Postal Service first announced it would overhaul the mail processing network when it released its original Transformation Plan in April 2002; but it ignored demands by legislators and workers for details about where, when, and how consolidation would take place. To date, the USPS has refused to provide specifics of its plans or the criteria it relies on when selecting facilities for consolidation.

More than three years passed after the 2002 announcement with no consolidations taking place; but between Oct. 19, 2005, and Jan. 6, 2006, the Postal Service announced that it would conduct Area Mail Processing (AMP) feasibility studies at approximately 50 facilities.

Many of the announcements generated strenuous opposition from workers and affected communities. In 2006 and 2007, 37 of the 50 consolidations were terminated, placed on hold, or reversed.

Severe Criticism

During this time period the Postal Service was the subject of severe criticism by the Government Accountability Office (GAO) for the lack of transparency in its planning efforts, and for failing to allow for sufficient input from workers, citizens, and public officials in affected communities. A 2005 GAO audit concluded that the USPS Consolidation Plan "lacked clarity, criteria and accountability." (GAO-50-261)

The Postal Regulatory Commission (PRC) also disapproved of USPS consolidation efforts. Testifying before this subcommittee in August 2007, John D. Waller, director of the Office of Accountability and Compliance, cited a lack of consistency in how proposed consolidations are reviewed; a failure to develop criteria for approval or disapproval of proposed consolidations; a failure to seek public input; and "severe tardiness and errors in analysis in post-consolidation reviews."

To make matters worse, there is no conclusive evidence to support USPS claims that plant consolidation will lead to greater efficiencies or savings.

In 2007, the GAO reported that:

"Inconsistency in data calculations also impacts the ability of USPS to accurately determine the expected cost savings of the AMP consolidations..."

"For example, during a review of one AMP consolidation, the Inspector General found discrepancies in the projected cost savings in the AMP consolidation study, resulting in savings that may have been significantly overstated." (GAO-07-717)

Problems Persist

No new AMP surveys were announced between February 2006 and November 2008, but in June 2008, in accordance with a requirement of the Postal Accountability and Enhancement Act, the Postal Service produced a Network Plan.

The thick report may have satisfied the letter of the law, but it fails to satisfy the spirit. It provides no details about when, where and how plant consolidation will take place, and it lacks a strategic vision.

Instead, in late 2008 and throughout 2009, the USPS has individually announced consolidation "feasibility studies" at 26 locations.

And despite USPS assurances to the contrary, citizens, community leaders, small-business owners, and postal workers are concerned that a "realigned" mail processing network will reduce service and delay delivery of the mail.

- Key mail-processing operations will be moved away from the communities they serve – in some cases more than 100 miles.
- Mail will be delayed. Checks will arrive late, bills will not get paid on time, and medication delivered by mail will take longer to arrive.
- Local mail – which small businesses, newspapers, churches, and other community organizations rely on the most – will suffer the longest delays.
- Mail will be collected earlier and arrive later in the day – inconveniencing individual customers and small business.
- The local economy will suffer as jobs leave town.
- Cities and townships will lose their postmarks – an important part of their identity.
- Postal employees will be shifted to jobs far from their homes.

And criticism from the GAO continues. Despite its stated objective "to minimize the degree to which any mail plant consolidations results in downgrades to the First-Class Mail service standards," the agency reported in July 2008 that, "USPS has not established measurable performance targets for its realignment initiatives." (GAO-08-1022T) The GAO reiterated those concerns in September 2008. (GAO-08-1134R)

The danger is clear: if service to small businesses and individual citizens is permitted to decline, it could lead to the demise of the institution.

Although the 2008 GAO report credited the Postal Service with improvements in realignment planning and communication, these alleged enhancements have not been realized in the affected communities. In fact, the USPS' failure to heed the concerns of citizens and to proceed with a controversial consolidation, prompted the *Bradenton (Florida) Herald* to ask, "Was the fix in?"

The newspaper noted that the consolidation was approved, "despite objections from a congressman, mayors, council members, county commissioners, other civic leaders, business people and residents from around the region" as well as postal workers.

"How much more opposition must there be?" the editorial asked. Postal officials have estimated that the closing would save \$3.2 million a year, "yet nobody's seen any documentation to support that," the paper said. "Where is it? Does it even exist? The public should have access to that in order to question its validity."

Regrettably, the Postal Service has consistently failed to share an overview of its network realignment plans with the APWU, despite repeated requests and a national-level grievance. The USPS has, however, given an in-depth presentation about the plan to the Mailers Technical Advisory Committee, an organization representing the interests of "major mailers." (Management finally scheduled a union briefing after I made a written request, pointing out that MTAC announced it would receive such a presentation on May 5. The APWU meeting is scheduled to take place next week.)

Clearly, significant flaws persist. There is no conclusive evidence of savings; the effect on service is unknown, and the plan has not been clearly articulated to lawmakers, postal workers, unions, community leaders or citizens.

Massive Reassignments

Other USPS efforts at cost-cutting reveal similar pitfalls.

Tens of thousands of employees – including many who work at facilities that have been unaffected by consolidation – have been notified that they will be reassigned, often hundreds of miles from their current assignment.

Meanwhile, employees at the new locations have been informed that they also will be reassigned hundreds of miles away. This absurd situation is part of a cynical attempt by management to coerce displaced employees to terminate their employment. It has to stop.

At the same time, window hours are being cut, and post offices are being closed, while local media decry the decline in service.

The Postal Service asserts that the intent of these programs is to cut costs, and despite the shortcomings I have outlined, I want to emphasize that the APWU does not oppose cost reductions or improved efficiency. (The record shows, for example, that we supported the USPS automation program – even though it had a profound effect on the number of APWU jobs – because we believed it was necessary for the long-term survival of the Postal Service.)

Flawed Rate Strategy

However, even if we overlook the faults, the USPS cost-cutting efforts are subverted by its postage rate strategy, which dramatically reduces revenue from major mailers without a corresponding reduction in service.

The USPS business model is based on the erroneous premise that discounts for large mailers increase volume. However, a review of the effects of three decades of rate manipulation reveals that discounts have failed to boost first-class volume.

The graph appended to my testimony (Attachment #1) shows the effect of rate changes on volume. It demonstrates that despite disproportionate increases in postage discounts, volume has been unaffected. In fact, over time, the Gross Domestic Product (GDP) has been a more accurate predictor of increases or decreases in first-class mail volume.

This flawed rate policy subsidizes large mailers at the expense of American citizens and jeopardizes the viability of the Postal Service.

Subverting the Mission

The misguided rate strategy has undermined the principle of universal service at uniform rates, and tests the limits of the law. Under the guise of transferring postal work to the large mailers and rewarding them with discounts derived from "costs avoided," the uniform-rate standard has been eroded. The only mailers left to pay the published first-class rates are individual citizens and small businesses.

Rates for major mailers have been manipulated to the extent that they pay as little as 76 percent of the official first-class rate. A two-tier structure has evolved, and, with the implementation of the previously mentioned cost-cutting initiatives, two levels of service are emerging: one for the large mailers and another for private citizens.

The second appendix to my testimony (Attachment #2) illustrates the discrepancy. Letter #1 is a typical first-class business letter that qualifies for the workshare discount. Because the mailer affixed the bar code that appears at the bottom of the letter, the Postal Service reduced the first-class rate from 44 cents to 33.5 cents, a discount of 24 percent.

Letter #2 is also prepared by the business mailer, with the bar code placed at the top of the address window. However, the postage is paid by the recipient of Letter #1, the average American citizen. The cost is 44 cents, the full, first-class rate, even though the letter also contains a bar code; is prepared identically to the discounted piece, and requires the same amount of work by the Postal Service.

As a consequence of these rate distortions, the concept of universal service at uniform rates has been changed to such an extent that there are now two classes within the mailing public: large mailers, who receive reduced rates and improved service, and average Americans, who get burned.

Devastating the USPS

The USPS efforts to reduce costs – plant consolidations, massive employee reassignments, reduced retail hours, and the reduction of neighborhood collection boxes will have a devastating effect on service. The faulty rate strategy has had a devastating effect on the Postal Service itself: It has drained the USPS of much-needed revenue, and threatens the viability of the institution.

Passing H.R. 22 will provide the Postal Service immediate relief; but the long-term solution to the crisis is to end the policy of subsidizing large mailers at the expense of American citizens and the USPS.

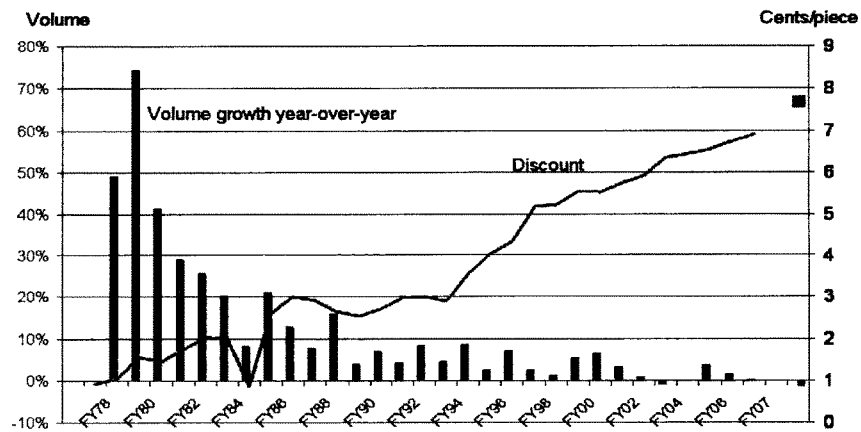
Without congressional intervention, it can be expected that the separation of service and cost will accelerate, and the noble mission of the Postal Service – to bind the nation together through the personal, educational, literary, and business correspondence of the people, and to provide prompt, reliable, and efficient services to patrons in all communities – will be no more than prose.

We can do better than that, and we need your leadership, Mr. Chairman.

Thank you.

Attachment #1

Year-over-year Growth in FC Presort Letters, Flats, Parcels
Estimated Discount for FC Automated Volume



The estimated discount is the FC, first ounce rate minus the unit value of the presort mail. This tends to underestimate the discount due to the inclusion of the additional ounces in the presort unit value.

*FY08 percent change in volume and average discount includes only letters

ATTACHMENT #2



Presorted
First Class Mail
U.S. Postage Paid
C.C. S.P.

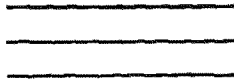
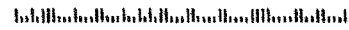
STATEMENT ENCLOSED



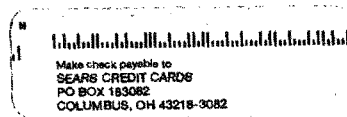
Search ENERGY STAR at
www.sears.com to see
how ENERGY STAR qualified
appliances can save you
time, money and energy

5-Digit Presort Discount: Mailer Pays 33.5 Cents

273196470 BMDKNP1 20772



PLACE
STAMP
HERE



No Discount: Customer Pays 44 Cents

Mr. LYNCH. Thank you, Mr. Burrus.
Mr. Hegarty.

STATEMENT OF JOHN HEGARTY

Mr. HEGARTY. Good morning. Thank you, Chairman Lynch, Ranking Member Chaffetz, and the other members of the subcommittee, for calling this hearing. You have asked for testimony today focusing on the impact that the Postal Service's cost cutting is having on postal operations and the postal network.

Responses from the Postal Service to the current economic crisis include a blanket hiring freeze for virtually all career positions, a reduction in overtime hours, and a drastic reduction in total career positions. Indeed, in just the last 18 months, the Postal Service has reduced career positions by more than 40,000 employees.

Another aspect of the Postal Service's cost cutting program, and one in which mail handlers are more familiar, are efforts to reduce the number of facilities and/or to shift operations in the postal network through its Area Mail Processing [AMP] Guidelines.

It has, as I said in my written statement, been a rough road, with many starts and stops along the way. The Postal Service has received much criticism from many stakeholders. Recently, the Postal Service has sent to this point at least 35 notices in which it announced that it intends to perform a feasibility study to determine if the movement of certain mail processing would help to eliminate excess capacity and/or would allow the Postal Service to make more efficient use of existing facilities.

Mr. Chairman, there is a need to ensure the short-term financial viability of the Postal Service and the long-term financial viability. It may require the closing and consolidation of certain postal facilities. But there is also the need to ensure that service does not decline and that the future postal network is not cut too severely such that the Postal Service will not be prepared to provide universal and low-cost service when mail volumes recover.

Our suggested solution is to approach these issues on a case-by-case basis. For example, suppose there are two mail processing facilities only a few miles apart and both of those facilities are underutilized, and the work at the smaller facility simply could be consolidated into the larger installation without disruption. Or perhaps one facility is much more dilapidated than the other. Or perhaps one facility is governed by an expensive lease; whereas, the other building is actually owned by the Postal Service.

Where the proposal makes economic and logistical sense, where service standards will not be negatively affected, where major mailers in the area will not be inconvenienced, and where all negotiated requirements with the unions have been complied with, then the Mail Handlers Union will not simply oppose for the sake of opposition. Conversely, the Postal Service should not be conducting an AMP study just to show that they are doing something.

In those cases where it makes sense, the Mail Handlers Union focuses on minimizing the dislocation and inconvenience that might be suffered to our employees. We have negotiated contractual provisions which require the Postal Service to give its unions and its employees advanced notice of any proposed closings or consolidations. We also have negotiated provisions which obligate the Postal

Service to ensure that dislocation and inconvenience to its employees in the regular work force shall be kept to a minimum, and that is a quote right out of our Collective Bargaining Agreement.

If each of these provisions were properly implemented, we would not have as many problems as we are currently facing. Unfortunately, the rational and realistic approach does not always control the day. First, the Postal Service often announces proposals that have no realistic chance of being approved, thereby causing panic among postal employees and customers, and political upheaval that is sometimes worse than the proposal itself. Second, even when the proposed closing or consolidation is eventually approved and implemented, the Postal Service does not always follow its contractual obligation to its employees.

The best way to minimize hardships is to discuss the matter with the unions and management associations even before the proposal is announced publicly. The Postal Service consults with its major mailers or other customers and considers the views of the community leadership, but it also must consult with its unions at the local and national levels. The parties would be well served to discuss these proposals before a feasibility study is publicly announced, and the same message should get out to local union representatives and local management. This hearing will certainly help us to reach that goal.

Turning back to the financial situation now facing the Postal Service, I would like to reiterate my organization's wholehearted support for H.R. 22, which would provide the Postal Service with some much needed relief by slowing down, but not eliminating, the USPS prefunding requirement for retiree healthcare benefits without endangering the healthcare benefits of current or future retirees.

Again, thank you for your time and attention. I would be happy to answer any questions you may have.

[The prepared statement of Mr. Hegarty follows:]



National Postal Mail Handlers Union

John F. Hegarty
National President

Mark A. Gardner
Secretary-Treasurer

Jefferson C. Peppers, III
*Vice President
Central Region*

Samuel C.D'Ambrosio
*Vice President
Eastern Region*

Paul Hogrogian
*Vice President
Northeastern Region*

Bruce Z. Miller
*Vice President
Southern Region*

Rudy Santos
*Vice President
Western Region*

TESTIMONY OF

**JOHN F. HEGARTY
NATIONAL PRESIDENT
NATIONAL POSTAL MAIL HANDLERS UNION**

BEFORE THE

**SUBCOMMITTEE ON
FEDERAL WORKFORCE, POSTAL SERVICE, AND
THE DISTRICT OF COLUMBIA**

OF THE

**HOUSE COMMITTEE ON
OVERSIGHT AND GOVERNMENT REFORM**

**"Nip and Tuck: The Impact of Current Cost Cutting
Efforts on Postal Service Operations and Network"**

May 20, 2009

National Headquarters: 1101 Connecticut Avenue, NW, Suite 500, Washington, D.C. 20036
(202) 833-9095 FAX (202) 833-0008 <http://www.npmhu.org>



Good morning, and thank you Chairman Lynch and members of the Subcommittee for inviting me to testify. My name is John Hegarty, and I am National President of the National Postal Mail Handlers Union, which serves as the exclusive bargaining representative for nearly 55,000 mail handlers employed by the U.S. Postal Service.

You have asked for testimony today focusing on the impact that the Postal Service's cost cutting is having on postal operations and the postal network. As you know, the Postal Service has been tremendously affected by the financial crisis facing our country since last year. Indeed, because the Postal Service is a leading indicator of the state of the American economy, mail volume started to fall dramatically long before the October 2008 collapse of the stock market, and long before much of the country became aware of the depth of the crisis in the financial and housing industries. Also, the internet and other electronic forms of communications have contributed to the loss of mail volume, particularly First-Class mail, adding to the large declines in postal revenue.

There have been numerous responses from the Postal Service. These include a blanket hiring freeze for virtually all career positions; a reduction in overtime hours, such that available overtime is at levels lower than we have seen in many decades; and a drastic reduction in total career positions, all accomplished through attrition, including normal retirements, voluntary early retirements, resignations, and terminations. Indeed, in just the last eighteen months, the Postal Service

has reduced its career complement by more than 40,000 employees, including approximately 3,500 Mail Handlers, and the last six months have seen a total deduction of 21,000 career employees, including 1,600 Mail Handlers.

With such drastic declines in the number of productive employees, and the simultaneous reductions in overtime, the next question is whether these cuts are commensurate with the decline in volume, or whether these cuts are also reducing service to the American public. I am not certain that the Mail Handlers Union can answer that question, except based on anecdotal evidence, as the Postal Service remains the most trusted and most admired agency in the federal government, and the Postal Service's internal measurements of on-time processing and delivery of mail remain extremely high.

Another aspect of the Postal Service's cost cutting program, and one with which Mail Handlers are more familiar, are efforts to reduce the number of facilities in the postal network. As currently constituted, the Postal Service has more than 34,000 facilities, including over 400 large postal plants where Mail Handlers primarily work. Even before the recent declines in mail volume, the Postal Service has been trying to identify a rational way of reducing this vast network of facilities.

Back as early as 2005, the Postal Service began to notify the Mail Handlers Union about its plans to consolidate or close certain postal facilities. As explained by the Postal Service, these closings and

consolidations were meant to be just the first step in a long-term and nationwide effort to adjust the size of its network of facilities around the country.

Initially the Postal Service identified 139 facilities for possible consolidation, but that list was purely internal and never shared with the unions or publicly released. The number was then whittled down substantially, and the Postal Service eventually announced that it was studying approximately forty facilities through a series of Area Mail Processing feasibility studies that management conducted by applying its Handbook PO-408, which includes its Area Mail Processing or AMP Guidelines.

In early 2006, the Postal Service filed a series of documents with the Postal Rate Commission (PRC) to request approval for a major overhaul of the USPS mail processing and transportation network. This network redesign initiative, also considered by the Postal Service to be part of its Evolutionary Network Development (END) program, was expected to take as many as five to ten years to implement. As submitted to the PRC, what was proposed was a revised network of mail processing facilities, including approximately 60-70 Regional Distribution Centers (RDCs) and scores of Local Processing Centers (LPCs) and Destination Processing Centers (DPCs). Specific locations for these facilities were largely unknown – just the general contours of the plan were being discussed.

Eventually, the PRC issued a decision in December 2006, in response to the Postal Service's request for an advisory opinion on the permissibility of this closing and consolidation process. Although the PRC praised the Postal Service's goal of streamlining its mail processing and delivery network, it found major problems in the Postal Service's methods, essentially telling the Postal Service to slow down and start over.

With the adoption of postal reform legislation – also in December 2006 (and only weeks before the PRC issued its advisory opinion) – and with continuing revisions to the USPS automation program, the plans for closing and consolidations were constantly changing. Indeed, in early 2008, the General Accounting Office reported to Congress that the Postal Service was continuing to fall short when trying to implement its reduced network of mail processing facilities. GAO also noted that postal management had until June 2008 to develop a plan to rationalize and reduce its processing network:

The [Postal Accountability and Enhancement Act] . . . requires the Service to develop a plan by June 2008 that includes its strategy for rationalizing the postal facilities network and removing excess processing capacity from the network. As part of this plan, the Service is to identify cost savings and other benefits associated with network rationalization alternatives. This plan provides an opportunity for the Service to make its case that realignment is needed to address infrastructure issues (e.g., excess capacity, maintenance needs, and facility locations) and reduce costs. It can also address concerns raised by Congress and the public about how decisions related to planned network changes are made and communicated to affected parties. We have reported our concerns that the

Service's strategy for realigning its processing and distribution network and workforce was not clear, and that its strategy lacked sufficient transparency and accountability, adequate stakeholder input, and performance measures for results [GAO Report 08-503T at 15.]

Shortly thereafter, the Postal Service issued a major revision of its Handbook PO-408, which continues to govern Area Mail Processing changes. This revision tried to deal with the issues identified in the advisory opinion issued by the PRC, and responded to Section 302 of the postal reform legislation requiring greater transparency in the Postal Service's future efforts to consolidate processing facilities. Although Congress agreed that the Postal Service has more facilities than it needs, and encouraged the Postal Service to "move forward in its streamlining" efforts, Congress in the PAEA also required the Postal Service to develop a plan describing the "long-term vision of the Postal Service for rationalizing its infrastructure" and describing "any changes to the Postal Service's processing, transportation, delivery and retain networks necessary to allow the Postal Service to meet" performance goals. The plan had to include "estimated timeframes, criteria, and processes to be used for making changes to the facilities network, and the processes for engaging policy makers and the public in related decisions." Effective immediately, Congress said that the Postal Service "may not close or consolidate any processing or logistics facility without using procedures for public notice and input," including providing adequate public notice to communities potentially affected; making available information

regarding any service changes or other effects on customers or postal employees, and any cost savings; giving affected persons “ample opportunity” to provide input; and taking such comments into account in making a final decision.

While the revised Handbook PO-408 was being finalized – which was after the PAEA was adopted and the PRC’s advisory opinion was released – the Postal Service terminated many of its pre-existing feasibility studies, and put others on hold. There were notable exceptions, such as a large consolidation involving the St. Petersburg, FL Processing & Distribution Center, which saw some of its work moved to Tampa, FL in the past year. But for the most part, the Postal Service did not actively seek to study or implement network consolidations while the process for making such determinations was being revised.

In recent months, however, the Postal Service has reinvigorated its plans for consolidating its mail processing facilities, and has notified the unions and the affected communities about dozens of possible of closings. More specifically, there have been – to this point – a total of at least 35 notices sent to the Mail Handlers Union in which the Postal Service announces that it intends to perform a feasibility study to determine if the movement of certain mail processing would help to eliminate excess capacity and/or would allow the Postal Service to make more efficient use of existing facility space, staffing, equipment, and transportation.

The NPMHU recognizes that this presents all postal stakeholders with a dilemma: there is a need to ensure the short-term, financial viability of the Postal Service, which very well may require the closing or consolidation of certain postal facilities, but there also is the need to ensure that service does not decline and that the future postal network – which itself is an invaluable asset owned by the Postal Service – is not cut too severely such that the Postal Service will not be prepared to provide universal and low-cost service when mail volumes recover in the coming years. These needs are often in conflict. Keep in mind that all Area Mail Processing studies do not involve closing a facility down completely; in fact, in many instances, they are recommending shifting some of the processing to another facility, and leaving some operations intact at the losing Installation.

Our suggested solution is to approach these issues on a case by case basis, recognizing that not every proposed consolidation or closing is going to require the same response. Simply put, every situation is different. In some cases, a fair review of the proposed consolidation might show that the closing makes sense. Perhaps, for example, there are two mail processing facilities only a few miles apart, and both of those facilities are underutilized, and thus the work at the smaller facility simply can be consolidated into the larger installation without disruption. Or perhaps one facility is much older and more dilapidated than the other, or perhaps one facility is governed by an expensive but

expiring lease, whereas the other building is actually owned by the Postal Service. In each of these cases, a closing or consolidation very well may be rational. And where the proposal makes economic and logistical sense, where service standards will not be negatively affected, where major mailers in the area will not be inconvenienced, and where all of the requirements of the PO-408 Handbook have been complied with, then the Mail Handlers Union will not simply oppose the proposal for the sake of opposition. (Conversely, the Postal Service should not be undertaking an AMP study just to show the “higher-ups” in Washington that they are “doing something” in the field.) Rather, we are analyzing each proposal, and asking our representatives at the local level to make a complex judgment about the advisability of each proposed closing or consolidation.

In those cases where the network adjustment makes sense, the Mail Handlers Union focuses on minimizing the dislocation and inconvenience that might be suffered by Mail Handlers because of the proposed closing or consolidation. We have negotiated contractual provisions – most notably found in Article 12 of our collective bargaining agreement – which require the Postal Service to give its unions and its employees advance notice of any proposed closings or consolidations, including the anticipated impact; the numbers of employees affected; and the locations to which they will be reassigned. We also have negotiated provisions which obligate the Postal Service to ensure that “dislocation

and inconvenience to employees in the regular work force shall be kept to a minimum.” If each of these provisions were properly implemented, we would not have as many problems as we currently are facing.

Unfortunately, the rational and realistic approach adopted by the Mail Handlers Union does not always control the day.

First, the Postal Service often announces proposals that have no realistic chance of being approved, thereby causing panic among postal employees and customers, and political upheaval that is sometimes worse than the proposal itself. We do not know precisely why the Postal Service makes these announcements: Is it because management simply has not adequately studied the impact of its own proposals? Or is it because the Postal Service feels obligated to notify its stakeholders about every possible proposal under the guise of a fully transparent process, even if the proposal is not realistic and unlikely to be approved? Or perhaps the Postal Service intentionally announces proposals that have no realistic chance of final approval so that it can use the disapproval of these proposals as evidence to argue that its network realignment process is working and is eliminating the unjustified proposals? Whatever the reason, the announcement of proposals often leads to unnecessary upheaval.

Second, even when the proposed closing or consolidation is eventually approved and implemented, the Postal Service does not always follow its contractual obligation to minimize the dislocation and

inconvenience to its employees. Often at the local level, management representatives do not properly analyze the impact of their proposal, and end up notifying employees that they may be excessed or relocated when no such action is justified by the proposal. I could give many examples, but let me focus on one that has been in the newspapers recently, arising in Memphis, Tennessee.

A few weeks ago, the Postal Service announced a major realignment of its network of Bulk Mail Centers, which will be converted into Network Distribution Centers. As part of that realignment, the Memphis BMC will become a Tier 3 facility, with a likely increase in mail being shipped to and from that facility. Yet at the same time, the Postal Service has informed many Mail Handlers working in Memphis that, because of volume declines, they are being excessed hundreds of miles from Memphis, some to Nashville or Chattanooga, and still others to Tulsa, Oklahoma. Many of these Mail Handlers were born and raised in Memphis, and all of their friends, family, and community connections are in Memphis, and even the suggestion that they might be involuntarily relocated to another city is highly disruptive. I know that Members of Congress from Memphis are aware of this situation, and are working with the unions to stop or mitigate this relocation, but how could such excessing possibly be justified, when under the governing contract the dislocation and inconvenience to employees must be minimized, and when the Memphis facility, for operational reasons already identified by

the Postal Service, has been told that it can expect increased mail volumes in the coming months.

Care must also be taken to ensure that the consolidation makes sense economically for the Postal Service. For example, the recent "six-month post implementation review" of the transfer of outgoing mail from Olympia to Tacoma in the State of Washington indicates that the Postal Service lost over \$1.5 million by moving the processing out of Olympia. (It should be noted that the "six-month review" did not occur until eighteen months after the mail was moved.)

I could continue to give examples, but the point I want to make should be clear. When the Postal Service is deciding whether to close or consolidate facilities, it must minimize the impact on employees. The best way to accomplish that is to discuss the matter with its employee representatives, the unions, even before the proposal is announced publicly. Under the revised AMP guidelines, the Postal Service consults with its major mailers or other customers, and the Postal Service considers the views of the community leadership. But it also must consult with its unions, and there certainly is nothing to prevent the Postal Service from discussing these issues with the unions earlier in the process. There certainly will be times when we cannot reach an understanding and will have to agree to disagree, but there also will be many times when the employee representatives will have more knowledge

and better insights than the managers (who, it bears noting, often have only recently moved to that location and don't know local conditions).

In sum, this hearing has been called at an opportune time. It has been only six months since the Postal Service began to announce its latest feasibility studies to analyze proposed closings and consolidations. There is still time, with regard to those proposals that may be approved, and certainly with regard to any future proposals, for USPS management and the unions to work together to minimize the dislocation and inconvenience to Mail Handlers and other postal employees. The Postal Service is contractually obligated to do so, and it makes good business sense.

At the National level, the Mail Handlers Union and the USPS management already are implementing two agreements signed in 2003, one creating a Joint Task Force to implement Article 12 at the National level, and the other expressing the parties' commitment to work together on Workforce Repositioning to minimize the impact of plant closings and consolidations. But these are reactive meetings, where representatives are only able to discuss proposals that already have been announced. The parties would be well served to discuss these proposals before a feasibility study is publicly announced. The same message should get out to local union representatives and local management. And this hearing will certainly help us to reach that goal.

Turning back to the financial situation now facing the USPS, I would like to reiterate my organization's wholehearted support for H.R. 22, which would provide the Postal Service with some much-needed relief by slowing down (but not eliminating) the USPS pre-funding requirement for retiree health care benefits without endangering the health care benefits of current or future retirees.

Again, thank you for your time and attention. I will be glad to answer any questions you may have.

Mr. LYNCH. Thank you, Mr. Hegarty.
Mr. Goff for 5 minutes, please.

STATEMENT OF DALE GOFF

Mr. GOFF. Thank you, Mr. Chairman. I am once again honored to speak with this subcommittee about our national postal system and the economic climate in which it serves the American public. I think it is important to underscore that the underlying cause of the USPS's dire financial situation is the weakness of the U.S. economy. In addition, if the agency was not required to prefund its retiree health costs, its financial picture would be infinitely better.

NAPUS strongly believes that the justification for short-term legislative help has not abated. Consequently, we urge Congress to proceed as expeditiously as possible with such relief.

Today, NAPUS will discuss the postal retail network. Postmasters are the managers in charge of post offices. Therefore, we are uniquely positioned to provide insight into the retail network operations from the ground level.

First, permit me to state that NAPUS does not believe every postal facility in the country should be immune from closure or consolidation. If the Postal Service follows the law and established regulations, constructively consults with its frontline management team, and communicates clearly with the affected community, network rightsizing is achievable.

On the other hand, arbitrary facility closings, consolidation for consolidation sake is not a wise strategy. Consolidating or closing a postal facility without regard to its impact on the overall network is counterproductive and will cost the Postal Service revenue in the long run. This subcommittee needs to consider, as part of its review of retail operations, the USPS's universal service obligation and how a closing or consolidation impacts both the impacted community as well as the network itself.

It is important to recognize that not all facilities are similar. Of the 36,723 retail and delivery postal facilities, 27,232 are post offices, 4,851 are branches or stations, 658 are carrier annexes, 3,148 are contract postal units, and 834 are community post offices. Contract postal units and community post offices are not operated by the U.S. Postal Services and, consequently, cannot offer the full menu of postal products and services.

Branches, stations, annexes, contract postal units and community post offices are all subordinate to a local post office. In many towns and villages, the only access to postal services is their post office. Furthermore, only post offices are singled out in Title 39 of the U.S. Code for special protection against closing for solely economic reasons.

Far flung, isolated communities throughout the Nation use their post office as community centers, banks, pharmacies, and as the nexus for vital government services. In addition to being a revenue producing origination point, post offices are also the destination point of mailed matter. Secure post office boxes and distribution points for accountable mail characterize post offices. It is important to note that even if you close every small and rural post office in the United States, you would save only \$586 million, a mere eight-tenths of 1 percent of the USPS operating budget.

Mr. Chairman, indeed there are savings to be realized in the retail network, through the elimination of senseless requirements that add work hours and cost to postal operations. For example, the USPS Mystery Shopper Program wastes postal revenue. PRC Chairman Dan Blair recently remarked that the program is not statistically valid and, as a consequence, the Commission does not use the data as part of its annual compliance determination. The Mystery Shopper Program squanders postal dollars and should be terminated.

In addition, postal districts contribute significant, non-necessary costs to retail operations. Many of their make-work directives add no value to postal products, nor do the orders improve customer service. These pointless initiatives waste time and money. For example, some postmasters are required to file a tracking report, get this, to track if the postmasters are completing the other requested reports. Talk about folly and redundancy.

In order to save costs, I encourage the Postmaster General to negotiate with our unions about cross-craft training. An agreement in this area would enhance the skills of individual postal employees and enable postmasters to more effectively utilize their talent.

On the other side of the ledger, the Postal Service has done away with programs that actually could reduce costs. For example, the Postal Service suspended managerial training. The result is that postmasters are denied necessary instruction and tools to more effectively operate their facilities and save money for their post office. In addition, the agency has eliminated or curtailed revenue generating vending machines in automated postal centers.

Mr. Chairman, understandably, the task that we confront is daunting. However, the bottom line is that we must protect postal universality. Postmasters remain committed to working with Congress toward protecting the Postal Service as a national treasure. Thank you, Mr. Chairman.

[The prepared statement of Mr. Goff follows:]



**NATIONAL ASSOCIATION OF POSTMASTERS
OF THE UNITED STATES**

TESTIMONY OF

DALE GOFF

PRESIDENT

POSTMASTER OF COVINGTON, LA

BEFORE THE

HOUSE SUBCOMMITTEE ON THE FEDERAL
WORKFORCE, THE POSTAL SERVICE AND THE
DISTRICT OF COLUMBIA

WASHINGTON, DC

MARCH 20, 2009

Mr. Chairman, Subcommittee members, my name is Dale Goff, president of the 40,000-member National Association of Postmasters of the United States. I am honored to speak with the Subcommittee regarding the universal postal network.

It has been two months since I offered my views regarding Postal Service finances, and the necessity for legislative relief to address the retiree health pre-funding crisis that is undermining the organization. Clearly, the situation has not improved. In March, I testified that there is considerable waste resulting from unnecessary and redundant USPS District and Area management. I also stated that NAPUS has consistently offered Postal Headquarters responsible and effective ways to reduce costs and increase efficiencies – all of which were ignored, or summarily dismissed. Nevertheless, I think it is important to reiterate that the immediate cause of the USPS' financial woes is the weakness of the U.S. economy. It is unreasonable, naïve and short-sighted to suggest that the Postal Service would be insulated from the collapse of the nation's financial sector, retail commerce, automobile industry, and real estate market. After all the postal industry comprises about 8 percent of our nation's gross national product. NAPUS strongly believes that the rationale for short-term legislative help has not abated; consequently, we urge Congress to proceed expeditiously with such relief.

As legislation moves forward, Congress and the Administration must not demand financial tribute from the agency as the cost of its survival. I recognize that last week our government compelled the domestic automotive industry to dramatically reduce its national footprint as the price of relief. The Postal Service is not the automobile industry.

The distinction is unambiguous. There is a clear public expectation and a firm statutory obligation for a universal Postal Service.

Today, the Subcommittee asks NAPUS to focus on one aspect of postal operations, one that constitutes a major portion of the Postal Service's universal service obligation – the retail network. As this Subcommittee is well aware, Postmasters are the managers-in-charge of post offices, the contact point between postal customers and the mail system. Therefore, Postmasters are uniquely positioned to provide insight into the retail network, offer their views on the importance of the network, and where savings may be realized. Consolidation for consolidation sake is not a wise strategy, and closing, as a symbolic cost-cutting gesture, is superficial at best and service-degrading at worst. Many of those who propose to contract-out or hack-away at the retail network have not touched mail for decades – that is, other than depositing it or removing it from their mailbox.

Consolidating or closing a facility, without regard to its impact on the overall network is counterproductive and will cost the Postal Service revenue in the long run. Moreover, the Subcommittee needs to consider, as part of its review of retail operations, the USPS' universal service obligation.

There is some basic information that the Subcommittee needs to understand about USPS retail network. Not all retail facilities are the same. According the *USPS 2008 Annual Report*, there are 36,723 retail and delivery postal facilities. While 27,232 are Post Offices, 4,851 are “branches or stations”, 658 are “carrier annexes”, 3,148 are “contract postal units”, and 834 are “community post offices”. Contract postal units and

community post offices are not operated by the U.S. Postal Service, they are entities contracted-out to the private sector. In addition, there are specific postal services that contracted facilities cannot provide.

Branches, stations, carrier annexes, contract postal units and community post offices are all subordinate to a local Post Office. However, in some towns and villages, the only access point for postal services is their community post office. Furthermore, only Post Offices are singled out in Title 39 of the United States Codes for special protection against closing for solely economic reasons.

§101(b) The Postal Service shall provide maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities.

Far flung, isolated communities throughout the nation use their post office as their community center, their bank, their pharmacy, and their access point to government services. In addition to being the access point, which is revenue generating; post offices are also the destination point of mailed matter. Secure post office boxes and distribution points for accountable mail also characterize these post offices. There are those who propose to close small and rural post offices, as a means to cut costs. In fact, the Postal

Service has closed or consolidated hundreds of such post offices over the past 25 years. However, it is important to note that even if you close every small and rural post office in the United States, you would save only \$586 million – a mere eight-tenths of one percent of the USPS operating budget. Small post offices are not significant drains on the postal budget. In addition, assumed savings are offset by diminished service, which reduces revenue, and increase rural delivery costs. Moreover, postal customers are often forced to travel substantial distances to conduct postal business that cannot be conducted by their letter carrier.

Postmasters believe that there are savings to be realized in the retail network through the elimination of meaningless and counterproductive operational requirements. These prerequisites add substantial work hours and the accompanying costs associated with those added hours. For example, the USPS “Mystery Shopper Program”, which is a privatized operation, is a waste of postal revenue. PRC Chairman Dan Blair recently referred to the program as “not statistically valid”; consequently, it is not used by the Commission as part of its annual compliance determination. The only reason for the program is to harass local postal employees, including Postmasters, and use its derived erroneous data as the basis for arbitrary disciplinary decisions. One bazaar aspect of the Mystery Shopper Program is that the program penalizes postal employees who fail to successfully push a “premium” postal service, in lieu of, for example, “first class mail” or “parcel post” – even when these postal services are requested by the postal customer. The Mystery Shopper Program is a disservice to postal customers, a waste of postal dollars, and wreaks havoc on local postal employee morale. It should be terminated.

In addition, Postal Districts, which should be paired down beyond the six already targeted for elimination, contribute significant unnecessary costs to retail operations. Many of their make-work directives do not add any value to postal products, and do nothing to improve customer service. In fact, many of the directives diminish service. In order to justify their existence, the Districts require Postmasters to participate in pointless teleconferences and file worthless reports, created simply to generate work for District staff. As a result of this waste of time and money, many Postmasters and their staffs must request overtime and/or compromise the staffing needs of their local post offices. For example, Postmasters file a “tracking report” – get this – to track if the Postmasters are completing other requested reports. Talk about folly and redundancy.

In order to extract more savings out of retail operations, I encourage the Postmaster General to negotiate with our unions about cross-craft training. An agreement in this area would enhance the skills of individual postal employees, and enable Postmasters to more effectively utilize the talents of their employees. In this way, we would be able to calibrate, on a daily or hourly basis, the staffing to meet post office lobby traffic and mail volume. I believe this would be a win-win-win proposition. On a related note, the Postal Service has more or less abolished training for its frontline managers; the outcome of this wrong-headed decision is that new Postmasters, and even veteran ones, are denied the necessary tools to more efficiently operate their facilities and save money of their post office.

In addition to cutting retail costs, the Postal Service needs to boost retail revenue. The Postal Service has yet to exploit its tremendous national retail footprint to partner with other governmental entities – national, state, and municipal – and associate with complementary private sector endeavors. Furthermore, the Postal Service has undertaken initiatives that depress retail revenue. For example, its decision to remove postal vending machines from post office lobbies, and impeding the installation of automated postal centers in urban locations is weakening lobby traffic, and associated income. These devices are revenue generators. As a manager of a retail postal facility, I can assure that the expectation of internet sales diminishing the need for local retail transactions was not met. In fact, the decision is costing the Postal Service much needed revenue.

Mr. Chairman, understandably, the task that we confront is daunting; however, the bottom-line is that we must protect postal universality. Postmasters remain committed to working with the Congress towards protecting the Postal Service as a national treasure.

Mr. LYNCH. Thank you, Mr. Goff. I thank you all.

I yield myself 5 minutes.

As a threshold comment, each of you talked about H.R. 22. If all had gone as planned, we would have marked that up at today's hearing. However, as part of the markup and the whole amendment process, one of the critical pieces of information is really the CBO scoring of how much a particular piece of legislation will cost, what the cost associated with that would be. In fairness to CBO, the Congressional Budget Office, they have a lot on their plate right now and they thought it would take a bit more time, maybe a week, to get the hard numbers on the CBO scoring on this bill, H.R. 22. So as soon as we come back after the Memorial break, we will come back in and at the first available opportunity we will mark that up.

We should note, however, that there will be benchmarks in that bill. There is relief in that bill, as you have requested, but also within that bill there are benchmarks about cost savings. For the current year, I think the Postal Service has already accomplished what they need to do, if their numbers are valid, and I believe that, in a large degree, they are. But there are also cost reduction requirements going forward in the years described in the bill, and there is also a provision where, if the economy does turn around the Post Office starts generating sufficient revenues, then there is a pour-over provision that money gets diverted back into the trust fund. So we don't allow that to go on forever. We understand the relief that is needed in the short-term, but in the long-term we think we cannot suffer those the unfunded liability that would accrue if we just allow this to go on perpetually.

In any event, we will obviously have a markup on this in a couple of weeks and go forward.

I want to thank you for your testimony. Let me cut to the chase. There has been significant reduction in costs already, and I commend you on your cooperation in working with the Post Office in accomplishing that. None of it could have been done without your help. However, we are getting to a situation where the cuts go closer to the bone in some cases, where we have to look at retail operations.

I have a district that is two cities, Boston and Brockton, and I have 19 towns. The instances where post offices are located very close to each other happen to be in the major cities. As you know, I was a former iron worker, and it seemed like every time we threw up a high-rise of 30 stories or more, there was a post office that went right in that building, and the volume of mail at that time certainly justified it. So now we have situations in some of our major cities where you have four or five high-rises in a very close proximity and you have four or five postal facilities, a retail shop inside each of those high-rises.

We are going to have to look at some of that and we are going to need your cooperation to look at some of these facilities where we have redundancy that might have been justified in earlier days, when we had higher volume, but now we only have a number of options. We have raising rates again? That is distasteful. A direct appropriation to the Post Office for the first time? A lot of people think that the Post Office is run by tax money. It is run by reve-

nue. But we are looking at a situation where, if the Post Office runs out of money, as Mr. Galligan explained earlier today, they would be looking for some type of bailout. They have a statutory limit as to what they can borrow, and if they could not make that obligated payment on September 30th into the fund, they would be in violation of the law.

And the trend is not good. Every single witness today that has opined on the likelihood of recovery in 2010 has basically said 2010 looks as bad, if not worse, than 2009. And these are historic drops in volume on the order of 1929 and the great crash. So what can you tell me about efforts to create some efficiencies here, consolidate where we have duplicative services? How do we get there, and obviously with accommodations to your employees without layoffs? We are talking about voluntary attrition meeting the goals of reduction in force. How do we work together to get there on some of these facilities that need to be closed?

Mr. BURRUS. I will go first. My union stands ready and willing to be an active partner with the Postal Service, with this committee, with the Congress in finding efficiencies in the Postal Service. The previous panel testified about efforts that have been underway in the past and those cuts that have been made, 70 percent of all those cuts have been in my bargaining unit. My bargaining unit is being cut in half, over 100,000 employees within the bargaining unit. So any suggestion by Postal management that the unions may be uncooperative, well, they have pulled over 100,000 employees out of the people that I represent.

But I think the basic flaw of the Postal Service in their efficiency efforts is that they have viewed the network as the postal network, the 400-plus plants, the 37,000 facilities. Those facilities are under the direct control of the U.S. Postal Service where postal employees are employed. They view that as the universe where savings can be achieved. The network consists of much broader facilities than just the postal service facilities, and they are funded through the rate schedule. We provide funding for over 100 facilities scattered throughout the country to provide the same services that we provide within the Postal Service, processing and transportation. They are not being reviewed.

Our machines, the machines that the employees that I represent function on, their efficiency rate is 37,000 pieces per hour. Now, if there is an 8 cent discount on every letter that goes through there, that is the wage rate that the Postal Service is paying for those private corporations to perform the exact same functions that the employees I represent are performing. So if they are willing to put everybody in the pot, everybody that plays a role in the Postal Service processing, transportation, collection, and delivery network into the pot and say we can all of us find efficiencies, then we are a willing partner. We want to participate in that. But don't just look at part of that network and impose a disproportionate share of the savings on that segment, and that is what is happening.

Mr. LYNCH. Fair enough.

Mr. Hegarty.

Mr. HEGARTY. Yes. I think hard choices have to be made, but I think the key is going to be communications and input, and have the Postal Service have some meaningful dialog with the unions

and management associations. I think we started doing that. I will give Postmaster General Potter credit for calling much more frequent meetings with the organizations. We met probably six or seven times in the last 8 months, which is much more frequently than we had been meeting. But, the Postal Service also needs to be realistic.

As I said in my testimony, if a consolidation or closing makes sense, we are willing to work with the Postal Service. We need to reduce the impact on our employees. We signed a Memorandum of Understanding back in 2003 that requires the Postal Service and the Union to meet at the headquarters level to discuss Article 12 impacts and discuss work force repositioning issues. We have started those meetings once this came to the forefront that the AMP studies were going forward, and we are making some progress with that.

But there are still the horror stories out there. We were recently notified that they were going to involuntarily excess employees from Memphis, TN to Tulsa, OK. That is 400 miles away. A postal employee who made a career decision to work for the Postal Service now has a very hard choice: Do they leave the place they grew up, where their kids are going to school, where their spouse may have a good job, to follow their Postal job 400 miles away, uproot their family, try to sell their house in this terrible real estate market, or do they just give up their job with the Postal Service? So those are the choices that some of our employees are facing, and we are really trying to minimize those types of choices.

Other ways that we have tried to save the Postal Service money, I mentioned at the last hearing that all the unions and management associations have agreed to voluntarily increase the healthcare contributions. That total that we estimated last time over 5 years, with all employees together, is saving the Postal Service \$800 million over the 5 years. We have also agreed to very reasonable contracts in our contract negotiations with the Postal Service in our collective bargaining agreements. For instance, most Postal employees, my bargaining unit specifically, will receive a 1.2 percent raise this year, while Government employees are in line for a 2.9 percent raise. So not only have we accepted smaller wage increases and increased healthcare contributions. So we are working with the Postal Service.

One other thing I would like to point out in this particular segment is the fact that the Postal Service still has some operations subcontracted. They are paying other people to perform work that career Postal employees could be performing and, in fact, should be performing. In fact, you have clerks, mail handlers and other Postal employees around the country sometimes clocked under standby time, which means clock onto a specific operation number and go sit in the break room until we need you; and they will spend hours in there doing nothing, getting paid by the Postal Service, while we have contract employees performing empty equipment duties, sorting duties at what they used to call the HASP, the hub and spoke processing facilities. There are at least three of those major facilities that are totally non-Postal, and that is work that Postal employees should be doing.

Thank you.

Mr. LYNCH. Thank you, Mr. Hegarty.

Mr. Goff.

Mr. GOFF. Mr. Chairman, I would like to say, just like Mr. Burros said and Mr. Hegarty, the first thing that comes to mind is that we have to communicate with each other. Whether we are management or we are craft or we are headquarters or we are the people on the front line, we have to communicate; and we have done that to some extent, but as I said in my testimony, not for the sake of just saying we have communicated, or to let the committee know that we have been meeting. We have to communicate to the point that if we have viable solutions and recommendations that we have brought to these meetings, then we need to follow through and talk about them some more and put those things on the table. We have had the frequent meetings.

There is also the provision, as I said in my testimony, with the law as far as consolidating facilities and closing facilities. If we follow the law, I don't think there is anybody who would dispute, if it is done the right way and it is proven that facility is not needed, then we can go ahead and agree to that situation.

It is when we go in there and we are arbitrarily suspending post offices now and we are doing the different things. Urban area, rural area, as you have heard me say before, are two different things. If we have the concentration of branches in a big city, we also have those rural areas where there is not another post office for 200 miles away, so we need to really preserve those facilities.

There are a lot of things that postmasters, the clerks and everybody have been involved with. We got into some programs to help generate revenue. We have all backed that. Even the mail handlers have jumped in to do some of those programs. Postmasters have eBay days, they get people that deal in eBay. They are in there telling them how to do it and how to use our products to generate revenue. We have passport days. It is all ways that we can come to that community and can generate revenue. So there are many things that we can do. The overall thing that I think we all understand is that, yes, we have to make some major changes to go forward, and the best way to do that is that we all communicate together.

It is a pleasure for me to sit here with two of the craft presidents of the unions, to have a management president sitting with them to testify at the same time. That goes a long way. We have a great working relationship, all of us. We talk back and forth and we support each other on a lot of things. Sometimes Mr. Burrus goes the other way with us, but that is all right. But we do have a great working relationship and we have to keep that communication open, and I think that is the biggest thing to move forward.

Mr. LYNCH. Thank you, Mr. Goff.

The Chair now recognizes the ranking member, Mr. Chaffetz, from Utah, for 10 minutes.

Mr. CHAFFETZ. Thanks, Mr. Chairman. I appreciate it and I appreciate the big group hug that is going on there at the table. That is great.

If you could each maybe take a moment and from your perspective, your thoughts on 5 day delivery. And let's mix things up and

start with Mr. Hegarty this time. We will let Mr. Burrus go last here.

Mr. HEGARTY. Thank you. I said at the previous hearing that I was concerned that 5 day delivery may drive mail volume down, may drive some of our volume to our competitors, it may cause people to pay their bills online, to do their banking online; and I still think that is the case. I am a little bit worried, especially—I think we discussed it at the last hearing—about when there is a holiday weekend. You have no Saturday delivery, no Sunday delivery, no Monday delivery; now the first time you are going to get your mail between Friday and over the weekend is going to be Tuesday. So if I am a consumer and my electric bill is late and I get assessed a penalty, or my MasterCard bill is late, or my bank statement doesn't arrive on time and I am unable to reconcile how much I have in the bank and I overdraw a check, I am just going to go online and start paying my bills online. So I am concerned with that. And that is business that will never come back.

We have a competitive advantage in that we deliver on Saturdays with no extra cost to the consumers. We don't have fuel charges. Some other competitors do. So I am very concerned that 5 day delivery will cause a big drop in volume.

Mr. CHAFFETZ. Thank you.

Mr. HEGARTY. On the other hand, I think we need to be realistic. If that is the only way for the Postal Service to survive and, as Mr. Galligan described, they are still going to have retail open on Saturdays, if they were still going to deliver packages, instead of cutting out just the letters, and it is a substantial savings and it is thoroughly looked at by not just the Postal Service, but the other agencies, then we may have to accept that down the road.

Mr. CHAFFETZ. Mr. Goff.

Mr. GOFF. Previously, I stated that our organization was not in favor of the 5-day delivery, and I still say that at this point. We have heard this morning some different figures from the last hearing that we have had. My concern is that when we all come together and agree on one type of figure for a savings, then I can possibly agree with this, but when we are so far off on the different figures, I still have concerns about that. Just as Mr. Hegarty said, my concern is that every Monday, if we go with the Saturday as not being the day, would be that day after a holiday. Whatever we saved on that Saturday, we would be spending on Monday and Tuesday and Wednesday catching up for what was there for that weekend. So that is my biggest concern with it.

I am not sure that the cost is there that everybody says, and I think that we need to take some time and not overreact the way we are doing right now, to say 5 day delivery is our savior. I don't think that is going to be the savior. We need to take some time to look at this. And if the economy ever recovers—and none of know when that is going to happen—people are going to come back to ad mail. They are going to come back to the mailers out there and say, hey, you are the best bargain around and we are going to use you again because we got our economy back and we have a budget that we can start spending on mail again.

Mr. CHAFFETZ. Thank you. This assessment of the dollars, Mr. Chairman, I think has been quite varied. I do not feel comfortable

that we have identified what those potential savings could be, what the ultimate costs are. I have heard a huge swing in numbers, and I would concur with you that I don't think we have fully assessed not only the economic and emotional impact and business relationships that we have with our big mailers, but what the true savings and costs are.

Let me also say, as we go to Mr. Burrus here, I really do appreciate that I am getting very strong impression the unions are doing everything they can to work with all aspects, and I appreciate the approach. There have been a significant number of people through various reductions and whatnot, and I applaud you all for your proactive and positive approach to it.

I am sorry, Mr. Burrus, your comments on a 5-day.

Mr. BURRUS. I think it is an act of desperation. Perhaps we are at the point where the only things left are acts of desperation, but I think it would be the beginning of the end. I think once you legally permit another carrier to assume the responsibility of the Postal Service on any of the 6-days of the week—let's assume it is Saturday—that will add to the diversion of mail to electronic means, the economic, the shift from a debt driven society to one that engages in savings and our volume does not follow the request for credit cards and the other things that drive the commercial activities. I think that going from a 6-day delivery to 5 day delivery may hasten the demise of the Postal Service.

Somebody is going to deliver on that 6th day. If the Postal Service abandons it, somebody is going to pick it up gladly. A customer mailing an item on Wednesday that, in the normal 3 day delivery, would have been delivered on Saturday, would not receive delivery until Monday. Somebody is going to fill that void. And I think any diversion of 5 percent, 10 percent, 15 percent of the volume, where another carrier moves into that opening I think would just accelerate the demise of the Postal Service.

I don't think Congress would approve it, to begin with, and I think discussing it sucks the oxygen out of everything else, because it is such an issue that resonates with the American public. You tell the public that they may not get delivery 1 day of the week, they are not paying attention to the H.R. 22 and the impact of that and other requests for relief the Postal Service has made. Those go from the front page to the back page and everything the media focuses on is the reduction of delivery. I think it is not going to come about, but if it did I think it would be a big mistake, a big mistake. I think that FedEx, UPS, and delivery carriers that are not in the business today would pick up that opportunity; and if they can do it on Saturday, they can do it on Thursday at the same time the Postal Service is delivering, so you would have dual delivery forces out there.

Mr. CHAFFETZ. Thank you. In the interest of time and the call to votes, I yield back the balance of my time.

Mr. LYNCH. Thank you.

The Chair now recognizes the gentleman from Missouri, Mr. Clay, for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman. I will be as brief as possible.

Let me start with the entire panel. This is a panel-wide question. Can you tell us how your union or management association is working with the Postal Service to address its current financial difficulties and what specific actions have been taken or are being considered by your union or association? I will start with Mr. Burrus.

Mr. BURRUS. Yes. Presently, we are not working with them. We have offered. They have made their plans in isolation; they have gone forward with them. We have applied the provisions of our contract and, where appropriate, we would oppose them. But there are no joint efforts presently. We are certainly involved in some of the efforts to build volume. Those are collective efforts in that regard, but in terms of the efforts to downsize, consolidations, they just give us notices when they think of it. There are often times that we don't get the notice timely and we find out from the news reports in the location where the consolidation is taking place. But there are no collective efforts with my union. We are the largest postal union. There are no joint efforts with us to initiate efficiencies and come up with a rational plan.

As I included in my testimony, this consolidation plan that has been driven by the large mailing industry, we had a contractual language in 2001 that said we would sit down and develop a consolidation plan jointly. They have not given us a consolidation plan and we are years into that process. So there are no joint efforts in that regard. We stand available and willing to engage them. We certainly will apply the provisions of our contract, because we have secured rights that we have negotiated and we expect them to be enforced. But within the parameters of those collective bargaining agreements, we believe there is a lot of room for us to have some joint efforts.

We are on the cusp of getting into a serious issue. We have 37,000 post offices; 17,000 of them where I have bargaining unit employees, and there is no union representation. Even though they are covered by my collective bargaining agreement, there are no stewards or officers in those facilities. And what management has done is systematically taken the bargaining unit work and given it to non-bargaining unit employees. Programs take clerk work and give it to an employee who is guaranteed 8 hours a day to fulfill their daily schedule. And we are going to have a national effort to return that work. That is going to cost the Postal Service millions of dollars.

Mr. CLAY. Thank you for that response.

Mr. Hegarty, how is your union, do you have a working relationship with the Postal Service?

Mr. HEGARTY. We do have a working relationship. I agree with President Burrus, though, that it could be better, and we are also willing to work with the Postal Service at the headquarters level to do whatever we need to do to cause them to save money. There are a couple of things I highlighted in my testimony a month ago that we are currently engaged in. One is the ergonomic risk reduction process, where we evaluate a facility, train people on how to improve the operations, make them more ergonomically friendly so that employees aren't risking repetitive motion injuries and sustaining injuries that would cost the Postal Service a lot of money

down the road in workers compensation costs. The same thing with the Voluntary Protection program, which we partner with the APW, OSHA, and the Postal Service to reduce injuries in a building. To evaluate a building and to make that facility qualify, they have to meet some stringent guidelines established by OSHA to reduce injuries and, again, save the Postal Service money. We also continue to participate in the Quality of Working Life process, which is a cooperative working process where Postal employees from the workroom floor meet with their supervisor in what is called quality circles, and they brainstorm ways to do the job better, more efficiently, and save the Postal Service substantial amounts of money as well.

Mr. CLAY. Thank you for your response.

Mr. Goff, how have the postmasters worked with the Service?

Mr. GOFF. As far as having specific actions right at the moment, the only thing that I can say on that is we always continuously have off-the-record talks about different ways of doing things that we approach each and every day. As John and Bill have said, we have sat there, we have worked; a lot of times we get told about things that are being done when it is already happening out in the field or somebody in the field tells us about it, and then we have to go back. Unlike them, we don't have a collective bargaining agreement, but we have the parts that we should be consulting on, and I think that is something that we all have to work on improving a whole lot more.

Mr. CLAY. Thank you so much.

Mr. Chairman, thank you for your indulgence. I yield back.

Mr. LYNCH. Thank you, Mr. Clay.

Here is how I would like to handle this. We have 5 minutes left on this vote, so there will be a little delay. Why don't I do this. Mr. Goff, Mr. Hegarty, Mr. Burrus, I am going to give you each 3 minutes. Any points that we have not hit upon in our questions or points that you would like to amplify for the committee, I would like to hear them now. Then I will be able to dismiss this panel so you will be free for the day. I will go over and vote, and then we will come back and take the next panel. But everybody will be able to stretch their legs. How about that?

Mr. Goff, you are recognized for 3 minutes.

Mr. GOFF. Thank you, Mr. Chairman. I would like to sit here and say, in the absence of time, I have nothing further to add. In my written testimony and what I gave verbally today, I think expresses our concerns about the Postal Service. Being a 39-year veteran of this Service, I want to see this institution stay around for another 200 years.

Mr. LYNCH. So do I. Thank you.

Mr. Hegarty.

Mr. HEGARTY. Thank you, Mr. Chairman. I think we have covered pretty much everything that I had thought of for today. I would say that the Postal Service needs to be more proactive in their communications, not just at the headquarters level, but with the craft employees and work with us so that we don't, as President Goff has pointed out, find out about something after it has already been rolled out, or a program when it is 99.9 percent completed and they say what do you think about this program? We are

thinking of rolling it out. Our input at that point is really meaningless.

I think communications is the key. And as I highlighted earlier, the situation of the folks in Memphis, TN being offered almost an important choice, I think we need to find a way around that. We need our regional people sit down with their regional people. There has to be a better way.

Mr. LYNCH. Thank you.

Mr. Burrus.

Mr. BURRUS. Mr. Chairman, thank you. I have been a Postal employee within the Postal Service for 55 years now, a long time, and I have seen the changes that have occurred over that extended period of time, from manual, mechanized, automated, electronic. I have seen the rise of UPS and FedEx. I have seen a number of Postal Service initiatives to expand beyond hard copy communications.

I understand and appreciate that it is facing significant challenges at the present time. There is no guarantee that 10 years from now representatives from my union and Postal officials will follow on a panel representing the U.S. Postal Service in its present form. It is a real danger that, if they run out of money and can't pay their bills, there is no justification for their continued existence.

So I have that as a serious concern and I am concerned about Postal management's effort to make their plans and develop all of their strategies with the large mailers. There is no input by the average citizen. The only effect to the average citizen is the annual increase in postage. There is no consultation with the citizens, there is no input by those people that have their medicines delivered by mail, they send their birthday cards, Christmas cards. It is only 4 percent of volume today, so it is not a sizable number. But they are the purpose for the U.S. Postal Service, and the Postal Service really has no program designed to improve conditions for those employees.

And as I testified, my bargaining unit has suffered significant erosions in the number of employees. Over 100,000 fewer jobs exist today than did 10 years. Last year, as testified, some 30,000 fewer jobs. That is understandable in the context of the entire system. I have had several meetings with the Postmaster General, and I pointed out to him it has to be spread more evenly.

We are not the only bargaining unit in the Postal Service. Let's see it spread to other elements within the Postal system. To date, there is no indication that they are moving in that direction. As I said, there are people doing the same work, workers doing the same work that my members are performing and the Postal Service compensates not the individual, but the company, over \$300 an hour.

Now, if you are willing to pay \$300 an hour to have the same work performed by the employees I represent and you say you have too many of those, you have to reduce their numbers, there is something wrong there, and my members will react, as well as my union.

Mr. LYNCH. Thank you. In conclusion, I just want to say, and I know we have some of the Postal Service managers still in the au-

dience and watching, No. 1, people hate change. That goes for the American mail customer as well as employees. And when there is big change, you have to bring them along and explain it, and we in Congress hate surprises. And if we are going to make the changes necessary at the Post Office in a way that maintains respect for our employees and maintains superior service to our customers of the Post Office, then it needs to be a process that is collaborative.

So a message to the Post Office: I hate these stories where the Post Office just marches along on its own direction, without talking to its employee representatives. That cannot happen. If there is any obstruction to this whole deal on H.R. 22 and going forward, it will be a lack of consultation with the employees who are affected and the mailing customers who are affected, as well as the relevant Members of Congress who are dealing at the front lines with this issue.

So that needs to happen. I hope Mr. Potter is listening. We need to work with folks, especially when there are relocations involved, like the Memphis situation. That is a disaster and they need to take a good second look at that, as well as some other stories that I am hearing around the country.

I want to thank you for your testimony. I appreciate your coming here and helping us with our work. I am going to run over and vote, and I will be back, but this panel is dismissed. Thank you. Have a good day.

[Recess.]

Mr. LYNCH. Welcome, and, again, good afternoon. Thank you very much for your patience while we attended those votes. As always, I want to welcome our third panel. As is the custom at this committee, could I ask you to please rise and raise your right hands?

[Witnesses sworn.]

Mr. LYNCH. OK, let the record indicate that each of the witnesses has answered in the affirmative.

We have already ordered that your written testimony shall be entered into the record as written. I will give a brief introduction and then each of the witnesses will have 5 minutes within which to offer opening remarks.

Mr. Anthony W. Conway is the executive director of the Alliance of Nonprofit Mailers. Over the years, he has managed legislative and public policy relations with the U.S. Senate, House of Representatives, trade associations, Postal unions, and management associations.

Mr. Robert E. McLean has been executive director of the Mailers Council since 1996. From 1998 to 1996, Mr. McLean represented the National Association of Postal Supervisors on Capitol Hill. Additionally, he has been an adjunct professor at George Mason University.

Mr. Jim O'Brien is the chairman of the Association for Postal Commerce, also called PostCom. He is also the vice president of distribution and postal affairs for Time Inc. Prior to joining Time Inc. in 1978, he has held positions with RR Donnelley, United Parcel Service, and U.S. News & World Report.

Welcome, gentlemen.

Mr. Conway, you may begin. You have 5 minutes for an opening statement.

STATEMENTS OF ANTHONY W. CONWAY, EXECUTIVE DIRECTOR, ALLIANCE OF NONPROFIT MAILERS; ROBERT E. McLEAN, EXECUTIVE DIRECTOR, MAILERS COUNCIL; AND JAMES O'BRIEN, CHAIRMAN, ASSOCIATION OF POSTAL COMMERCE

STATEMENT OF ANTHONY W. CONWAY

Mr. CONWAY. Thank you, Chairman Lynch. Thank you for inviting me to testify here on behalf of the Alliance of Nonprofit Mailers. The Alliance is a coalition of nonprofit organizations dedicated to the preservation of affordable postage rates and dependable mail service. Established in 1980, the Alliance includes over 300 nonprofit organizations and commercial service providers with an interest in nonprofit mailing issues. Our members include many of the Nation's best known charitable, religious, educational, scientific, and other nonprofit organizations. These members rely heavily on nonprofit standard mail and nonprofit periodicals mail to generate necessary support and communicate with existing and potential members, beneficiaries, and other stakeholders.

The causes of the Postal Service crisis are well known. The decline in mail volume caused by the current economic downturn has merely accelerated the long-term decline in hard copy correspondence and the diversion of bill payments and other transactions to electronic media. When the economy stabilizes, some mail volume will return to the system, but not enough to fund the Postal Service network cost structure. The result is that even aggressive cost-cutting efforts have not enabled the Postal Service to shrink its costs fast enough to keep pace with declining mail volume.

The Postal Service's stakeholders have proposed a number of solutions to these problems, and perhaps the most urgently needed as a short-run remedy is passage of H.R. 22. Other worthwhile short-term and medium-term remedies include, first, increasing work sharing to allow mailers and third-party vendors to perform functions when they can do at a lower cost; two, expanding the use of automation when this is cost-effective; and, three, more innovative pricing such as the current summer sale discount proposal.

And, Mr. Chairman, it is time to seriously consider the end of Saturday mail delivery. Should you decide such a move is necessary, nonprofit mailers will work with you to ensure its successful adoption.

One option that would be devastatingly counterproductive would be an emergency rate increase. As the Postal Service has recognized, this strategy would accelerate the flight of mail volume from the Postal Service and hurt society as a whole. It certainly would hurt the beneficiaries of nonprofit organizations. The current economic crisis has forced layoffs and program cuts throughout the nonprofit community. Revenues have dried up just when society needs most urgently the good work of nonprofit organizations. Further postal rate increases would only mean further reductions in mission-related programs and greater burdens on national, State, and local governments.

None of the remedies discussed above, however, is likely to succeed without a thorough pruning of the Postal Service's massive cost structure. The Postal Service's infrastructure and capacity, built over many years with the assumption of ever increasing mail volume, far exceed the needs of today's postal customers. Comprehensive streamlining of this excess capacity is desperately needed. Unless this painful course is taken, the remedies suggested above will only offer a brief detour from the road to insolvency.

The U.S. Postal Service is the greatest postal system in the world. It handles over 40 percent of the world's mail and maintains a delivery network that is second to none. It has been the Cadillac of postal systems for many years, but, unfortunately, the Nation's needs have changed. Instead of the big V8, the Nation now needs a midsize model with greater efficiency. If it cannot attain such an affordable size, the Postal Service could end up like some of the auto makers in Detroit. We don't want that to happen and we hope that necessary change comes quickly for an organization that means so much to American society.

Thank you.

[The prepared statement of Mr. Conway follows:]

Testimony of Anthony W. Conway
Alliance of Nonprofit Mailers
Before the
Subcommittee on Federal Workforce, Postal Service and the District of Columbia,
Committee on Oversight and Government Reform
U. S. House of Representatives

May 20, 2009

Chairman Lynch, Ranking Member Chaffetz, and members of the Subcommittee, my name is Anthony Conway. I am the Executive Director of the Alliance of Nonprofit Mailers. Thank you for inviting me to testify on behalf of the Alliance about rightsizing the Postal Service network.

The Alliance is a coalition of nonprofit organizations dedicated to the preservation of affordable postage rates and dependable mail service. Established in 1980, the Alliance includes over 300 nonprofit organizations and commercial service providers with an interest in nonprofit mailing issues. Our members include many of the Nation's best-known charitable, religious, educational, scientific and other nonprofit organizations. These members rely heavily on Nonprofit Standard Mail and Nonprofit Periodicals Mail to generate necessary support from and communicate with existing and potential members, beneficiaries, and other stakeholders.

This hearing is timely. The deterioration of the Postal Service's finances is accelerating. The Postal Service lost \$2.8 billion in fiscal year 2008 and has lost \$2.3 billion in the first six months of fiscal year 2009. The total loss for the entire fiscal year is projected to exceed \$6 billion. The projected loss for fiscal year 2010 is at least as large.

These losses have pushed the Postal Service to the brink of insolvency. Two weeks ago, the Postal Service announced in its Form 10Q report for the first half of fiscal year 2009 that it is experiencing negative cash flow and does not expect to have enough cash to make required retiree health benefit and workers' compensation payments in September. Even with an anticipated \$3 billion borrowing from the Treasury, the projected cash shortfall on September 30, 2009, is \$1.5 billion.

The causes of this crisis are well known. The decline in mail volume caused by the current economic downturn has merely accelerated the long-term decline in hard copy correspondence and the diversion of bill payments and other transactions to electronic media. When the economy stabilizes, some mail volume will return to the system, but

not enough to fund the Postal Service network cost structure. The result is that even aggressive cost-cutting efforts have not enabled the Postal Service to shrink its costs fast enough to keep pace with declining mail volume and revenue.

The Postal Service's stakeholders have proposed a number of solutions to these problems. Perhaps the most urgently needed short-run remedy is passage of H.R. 22. Introduced in the 110th Congress and reintroduced in the 111th Congress by Subcommittee members John McHugh and Danny Davis, the legislation would allow the Postal Service to extend the period for prefunding the health care benefits of future Postal Service retirees. Relief from the crippling burden of the current funding schedule is crucial to the Postal Service's near term solvency.

Other worthwhile short-term and medium-term remedies include (1) increasing worksharing to allow mailers and third-party vendors to perform functions when they can do so at a lower cost; (2) expanding the use of automation when this is cost effective; and (3) more innovative pricing such as the current "summer sale" discount proposal. Reductions in the number of days of mail delivery must be considered when necessary and cost effective.

One option that would be devastatingly counterproductive would be an emergency rate increase. As the Postal Service has recognized, this strategy would accelerate the flight of mail volume from the Postal Service and hurt society as a whole. It certainly would hurt the beneficiaries of nonprofit organizations. The current economic crisis has forced layoffs and program cuts throughout the nonprofit community. Revenues have dried up just when society needs most urgently the good work of nonprofit organizations. Further postal rate increases would only mean further reductions in mission-related programs, and greater burdens on national, state and local governments.

None of the remedies discussed above, however, is likely to succeed without a thorough pruning of the Postal Service's massive cost structure. The Postal Service's infrastructure and capacity, built over many years with the assumption of ever increasing mail volume, far exceed the needs of today's postal customers. Comprehensive streamlining of this excess capacity is desperately needed. Unless this painful course is taken, the remedies suggested above will offer only a brief detour from the road to insolvency.

The 2003 final report of the President's Commission on the Postal Service included a chapter on the Postal Service's workforce. As the report noted, "the level of success achieved by the Postal Service will hinge on its ability to successfully deploy and motivate a talented, capable, nimble workforce of a size appropriate to the future postal needs of the nation and to give its employees a personal stake in the success of the institution's ambitious goals."

The Commission's report went on to say that management and labor must "work constructively together to determine the right size of the postal workforce and to ensure appropriate flexibilities in its deployment. This is *the* critical issue when it comes to

controlling the future costs and capabilities of the workforce. Far more than individual benefits, the *size* of the workforce determines the *costs* of the workforce.”

The United States Postal Service is the greatest postal system in the world. It handles over 40 percent of the world’s mail and maintains a delivery network that is second to none. It has been the Cadillac of postal systems for many years but, unfortunately, the nation’s needs have changed. Instead of the big V-8, the nation now needs a mid-sized model with greater efficiency. If it cannot attain such an affordable size, the Postal Service could end up like some of the automakers in Detroit. We do not want that to happen, and we hope that necessary change comes quickly for an organization that means so much to American society.

That concludes my written testimony. I will be glad to answer any questions you may have.

Mr. LYNCH. Thank you.
Mr. McLean for 5 minutes.

STATEMENT OF ROBERT E. McLEAN

Mr. McLEAN. Thank you, Mr. Chairman. We appreciate this opportunity to present the views of the Mailers Council, a coalition of mailers and mailing associations. My members collectively represent 70 percent of all mail in the United States. We are especially appreciative of you focusing on the Postal Service's financial problems, which are of great concern to our members, who rely on an affordable, consistent, and high quality postal system.

Right now, the Postal Service's operations are operating quite well, but the word crisis seems very appropriate here. It is often overused in hearings like this, but when the Postal Service says that it may not be able to pay its employees, its retirees, or its bills on October 1st, the word crisis seems very appropriate.

We think there are two reasons why the Postal Service's short-term problems exist in terms of their finances. One is the recession, which is responsible for the decline of billions of pieces of mail. The other is the aggressive schedule that the Postal Service has had to hue to under the PAEA concerning the prefunding of retiree healthcare costs. Therefore, we greatly appreciate the support that you and this subcommittee will offer to ensure the passage of H.R. 22. That is an important first step to offering the Postal Service some short-term relief, but clearly the system needs more long-term measures. Mailers firmly understand this, agree on the need to it, but have had some difficulty coming to agreement on what terms should be appropriate.

When it comes to 5 day delivery, my members are open to this possibility, recognizing that it will create problems for many of them. We have opposed it officially at this point because the Postal Service has yet to offer the level of detail that we would like. Which day of the week will it be? Will this be only a summer program, as initially proposed, or will this be permanent? Will it be offered as a pilot program first? And how much will mailers be involved in any establishment of a pilot program? All questions to which we would like to have answers quickly so that we can determine whether or not this is an idea we can fully support.

There are other ways that the Postal Service can reduce its expenses, and you have asked us to focus on one, which is rightsizing the delivery network. It is clear to us that the Postal Service has excess capacity in the system. It simply does not need the number of mail processing facilities that it has, nor can it afford the size of the network that it has today, given the amount of mail volume that has left the system.

One of the measures that we hope the Postal Service will avoid, however, is something that Mr. Conway mentioned, and that is an exigent rate case. Any additional increase in postage rates at this point would be incredibly counterproductive and would discourage the return of mail volume to the system, which we hope will occur as the economic situation in this country rebounds.

Congress has given the Postal Service a mandate to deliver excellent service to every American in every State without government financial support, which it has done for the past several decades.

Right now, my members report that service is very good and the Postal Service is meeting its delivery standards, which we believe is a tribute to both good management and the support of the postal employees.

We want quality service to continue, but that cannot happen unless Congress, the Postal Service, and the mailing industry all recognize that, as early as September 30th, the agency may be unable to meet its financial obligations. So we ask for your help in avoiding that so that the Postal Service does not become a burden on taxpayers.

Mr. Chairman, thank you again for this opportunity to testify. I would gladly answer any questions.

[The prepared statement of Mr. McLean follows:]

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Vice President, Distribution & Postal Affairs
Time Inc.

EXECUTIVE DIRECTOR

Robert E. McLean
2001 Jefferson Davis Highway, Ste. 1004
Arlington, VA 22202-3617
p 703-418-0390
f 703-416-0014
bmclean@mailers.org
www.mailers.org



MAILERS COUNCIL

TESTIMONY

BEFORE THE

HOUSE SUBCOMMITTEE ON

FEDERAL WORKFORCE,

POSTAL SERVICE, AND THE

DISTRICT OF COLUMBIA

MAY 20, 2009

TESTIMONY OF
ROBERT E. MCLEAN, CAE
ON BEHALF OF THE
MAILERS COUNCIL

Good afternoon, Mr. Chairman, and members of the subcommittee. The Mailers Council appreciates the opportunity to testify on postal issues. My name is Bob McLean, and for the past 13 years I have been the Council's executive director.

BACKGROUND

The Mailers Council is the largest group of mailers and mailing associations in the nation. We represent for-profit and nonprofit mailers (large and small) that use the United States Postal Service to deliver correspondence, publications, parcels, greeting cards, advertising, and payments. Collectively the Council accounts for approximately 70% of the nation's mail volume.

The Mailers Council believes that the Postal Service can be operated more efficiently, supports efforts aimed at containing postal costs, and has the ultimate objective of keeping rates below the Consumer Price index without compromising service. We believe that the Postal Service should be given the discretion it needs, and which it received under the Postal Accountability and Enhancement Act (PAEA), to operate in a way that will allow it to maintain high-quality service at the lowest possible rates.

We welcome this opportunity to testify about the Postal Service's declining finances and how it can address this problem while maintaining service to avoid further reductions in mail volume. As you requested in our invitation to testify, we also will address the need to rightsizing the postal network.

THE POSTAL SERVICE IS FACING A CRISIS THAT IS COSTING JOBS

It is now clear the Postal Service is facing a crisis—what may be the most serious in its long history, more serious than the situations that prompted passage of the postal reform laws approved in 1970 and 2006. We do not believe the Postal Service will be able to meet its financial obligations in the next several years without new federal legislation. We firmly believe that even with the best possible management or dramatic service cuts, the Postal Service will be financially unsustainable unless Congress quickly approves legislation that will give the agency help in responding to unprecedented declines in mail volume—a situation that extraordinary rate increases would only exacerbate.

It is important to remember that although the Internet has taken away millions of pieces of mail, the Postal Service remains an essential tool of American business. It supports a mailing industry that constitutes more than 9% of the GDP. The industry has already seen the elimination of thousands of jobs; without swift congressional action many of the more than nine million jobs in the industry will be eliminated, perhaps permanently.

There are two primary reasons why the Postal Service's finances are so bad. First, the recession is largely responsible for much of the recent, steep decline in mail volume. Businesses, from credit card companies to realtors to small retail businesses, have all drastically reduced all

marketing programs, including those that include marketing by mail.

The second reason why the Postal Service is reporting large losses, including \$1.9 billion in the second quarter alone, is the unnecessarily aggressive schedule for prepaying retiree health care costs imposed by the Postal Accountability and Enforcement Act of 2006.

HOW CONGRESS AND POSTAL MANAGEMENT CAN HELP

As dire as the Postal Service's condition is today, we believe Congress can help address both the short- and long-term problems and ensure that the Postal Service does not become a drain on the federal treasury—which could occur this fiscal year. There are also steps postal management can take to restore the agency to financial health.

The single most important short-term step is one that only Congress can take. We ask you to approve HR 22, the bill to revise the schedule for pre-funding retiree health care costs. Although we understand and agree with the need for pre-funding, the retiree fund contains \$32 billion. Making large, additional payments to this fund now places an unnecessary fiscal burden on the Postal Service—and cost jobs nationwide. So, we support HR 22, legislation that would alter the payment schedule while the economy recovers, at which time payments to the fund would resume.

If the Postal Service does not get this short-term relief, it may be unable to make its payroll or retiree payments at the end of its fiscal year. And if that happens, the Treasury is the guarantor, and Congress would have to spend billions to support the agency.

As for more long-term solutions, we believe the time has come for postal management to revisit every aspect of postal operations and compensa-

tion. We need a comprehensive plan because we do not know if or when volume will come back once the economy begins to rebound. Everyone in the mailing industry may have to give up something they don't want to give up—including mailers and postal employees.

An example is the postal proposal to move to five-day delivery. We have opposed this idea because the Postal Service has yet to offer details on how it would be implemented. Will it be temporary or permanent? What day of the week will be dropped? Will there be a pilot program to test this concept? And will mailers be a participant in planning this service cut?

There are other measures underway that postal management should accelerate, such as right-sizing the delivery network. The Postal Service simply has more mail processing capacity than it needs today and will need in the future.

As one example, the Washington, DC, area has three mail processing plants. When one was closed following the discovery of anthrax in the mail, the other two facilities began processing that mail—and did so while maintaining service levels. Let me add that closing small post offices is an idea we have not proposed because the savings are simply too small. We need to find big solutions more appropriate for the big problems the Postal Service now faces.

We also hope the Postal Service will look for ways to increase revenue. The recent "summer sale" proposal is an idea worth considering because of the potential it has for attracting revenue now by encouraging more mail that mailers would send without this incentive.

As for more long-term solutions, we support any process changes to make work sharing easier, as the last Presidential Commission on the Postal Service recommended. We can perform some mail preparation work less expensively than the USPS, which can help hold down the price of

postage—and that will help save jobs in the mailing industry, including postal jobs.

Finally, whether discussing short- or long-term management proposals, we have encouraged postal managers to talk with their customers more often and earlier when planning new programs or operational changes. As the Intelligent Mail Barcode project indicates, working with mailers on new ideas and testing them with mailers is essential to their success.

Also, when creating new procedures the Postal Service must consider their effects on mailers and our products rather than exclusively focusing on changes that would only benefit the agency. Too often well-intentioned postal managers have sought to improve efficiency through counterproductive measures that push clients to use other media, stifle creativity, or move customers to less expensive products, which only reduces revenue.

That's why we were so encouraged by a recent and unprecedented meeting where mailer representatives were invited to a lengthy discussion with members of the Board of Governors and senior postal managers. We must work together more often in this type of meeting on the problems both the mailing industry and the Postal Service face.

AVOID MEASURES THAT WOULD BE COUNTERPRODUCTIVE

There are some measures that have been discussed in the postal community and on Capitol Hill that we oppose because we believe they would only exacerbate the Postal Service's financial condition. For example, we would oppose raising the USPS' debt limit. The Postal Service will find it difficult enough to repay the funds allowed under the current borrowing limit.

Another concept, one allowed under the PAEA of 2006, that we oppose would be the filing of an exigent rate case or any rate changes that would merely transfer costs to mailers. A more significant increase than the one implemented last week will also drive down mail volume further. The Postal Service must avoid transferring expenses to its customers, rather than controlling their expenses.

Ideas such as these are not solutions; they would only postpone needed change.

THE PRICE OF INACTION WILL BE HIGH

As we noted in testimony delivered last year before this subcommittee, Congress has given the Postal Service a mandate to deliver excellent service to every American in every state without government financial support, which it has done for the past several decades. Right now my members report that service is very good and the Postal Service is meeting its delivery standards, a tribute to good management and the support of postal employees.

We want quality service to continue, but that cannot happen unless Congress, the Postal Service, and the mailing industry all recognize that as early as September 30 the agency may be unable to meet its financial obligations. We ask for your help so we may avoid having the Postal Service become a burden on taxpayers.

Mr. Chairman, thank you again for the opportunity to present our view on the daunting challenges the Postal Service now faces. I would gladly answer any questions you and your colleagues may have.

Mr. LYNCH. Thank you, Mr. McLean.
Mr. O'Brien, you are recognized for 5 minutes.

STATEMENT OF JAMES O'BRIEN

Mr. O'BRIEN. Thank you, Mr. Chairman. PostCom would like to thank you for this opportunity to provide testimony on the Postal Service's cost cutting efforts. All PostCom member companies need a healthy Postal Service to ensure the viability of our businesses.

In 2008, the Postal Service delivered 202 billion pieces of mail, approximately the same volume that was delivered in 1999. However, in 2008, the Postal Service delivered to 15 million more delivery points than it did in 1999. These sobering facts indicate that the Postal Service cannot remain financial self-sustaining for much longer under its current model, unless it is given the freedom to make changes in other areas.

The Postal Service is much too important to the economy and to the American public to be allowed to atrophy and fail. Saving the Postal Service will require the commitment of USPS management, the postal unions, the mailing industry, the Postal Regulatory Commission, and Congress. Some of the choices facing us will not be without pain. We are all going to have to make some sacrifices. To that end, PostCom has several recommendations, beginning with network adjustments.

Mailers feel very strongly that the Postal Service must adjust its network to match today's volume and service requirements. Such a network adjustment could have a negative impact on service. PostCom members are willing to accept service adjustments if the net result is an overall reduction in USPS costs and increased consistency. As long as service remains predictable and reliable, mailers can adjust their printing and mailing schedules to compensate for any network changes. Given the Postal Service's perilous financial condition, we hope that the Postal Service will not be thwarted in its efforts to streamline the network and reduce costs.

The frequency of mail delivery is another issue where the mailing industry is willing to put skin in the game. PostCom understands that the Postal Service does not have many opportunities that can result in a savings of \$3.5 billion. And I know you think that number is a little bit fuzzy, and we would agree. We also accept the fact that volume is declining and may never return to prior levels.

Many PostCom mailers have business plans that depend on 6 day delivery. However, given the dire straits that the Postal Service is now in, PostCom is willing to work with the Postal Service on developing a delivery day solution. The end result will damage some mailers' businesses, but may be required to ensure the survival of the Postal Service. We also realize that reducing delivery by 1 day per week is a decision that cannot be made by the mailing industry or the Postal Service, but requires the approval of Congress. We urge you to give the need for this measure serious consideration.

Work sharing is another very important tool for making appropriate adjustments to the scope and scale of the Postal Service's mail processing system. This process is based upon the concept of operating at the lowest combined cost between the mailer and the

Postal Service. In work sharing, rates are set at a level that reflects improved Postal efficiencies and marketplace realities. This type of sensible businesslike behavior is needed now more than ever, and PostCom strongly recommends the continuation and expansion of work sharing incentives.

The Postal Service is also pursuing an automation strategy to improve the processing of flat shape mail. PostCom applauds these efforts so long as they are aimed at achieving the lowest combined cost across the entire mail supply chain and are not merely shifting costs upstream to mailers and/or mail service providers.

On May 7, 2009, the Postal Regulatory Commission granted the Postal Service permission to sell unutilized capacity on its trucks. The Commission has also opened a docket on summer sale prices that are designed to generate more mail volume during the USPS's lowest volume period. PostCom supports both these concepts and notes that these creative ideas represent fresh thinking that has long been absent in the Postal Service's revenue generation efforts. The Postal Service must not be afraid to fail in these tests and the Postal Regulatory Commission, Congress, and the mailing industry must provide the latitude that allows either success or failure.

PostCom would be remiss if we did not mention the need for a restructuring of retiree healthcare funding. PostCom appreciates the efforts of Congressman John McHugh and the 309 cosponsors of H.R. 22. It is critical that this legislation gets signed into law prior to September 30, 2009, and we urge Congress to take immediate action.

In summary, PostCom members depend on a reliable and affordable Postal Service. Given the perilous state of USPS finances, neither Congress, the Postal Service, the Postal unions, nor mailers can avoid these issues any longer. Substantive changes must happen very quickly or the Postal Service as we know it may not survive. Thank you.

[The prepared statement of Mr. O'Brien follows:]



Association for Postal Commerce

1901 N. Fort Myer Dr., Ste. 401 • Arlington, VA 22209-1609 • Ph: +1 703 524 0096 • Fax: +1 703 997 2414 • Web: <http://postcom.org>

Testimony of

James O'Brien

Vice President, Distribution & Postal Affairs

Time, Inc.

On Behalf of the

Association for Postal Commerce

Before the

U.S. House of Representatives

Committee on Oversight and Government Reform

Subcommittee on Federal Workforce,

Postal Service, and the District of Columbia

May 20, 2009

Mr. Chairman, Ranking Member Chaffetz, and members of the Subcommittee, The Association for Postal Commerce (PostCom) thanks you for this opportunity to provide testimony on the Postal Service's cost cutting efforts. Among PostCom's members are some of the largest users of the Postal Service, including banks, catalog companies, and publishers, as well as some of the smallest mailers, including independent store owners, professionals, and non-profits. Some of our members are equipment manufacturers, software developers, printers, mailing houses, lettershops, and logistics firms. All PostCom member companies need a healthy Postal Service to ensure the viability of our businesses. Unfortunately, the current health of the Postal Service is not very good.

The viability of the Postal Service's business model has been suspect since First-Class Mail began migrating to electronic bill presentment and payment over ten years ago. This was the initial warning sign that fundamental reform of the Postal Service was required. At that time, PostCom and the mailing industry lobbied both Congress and the White House to address this issue. In response to a GAO recommendation, a bipartisan Presidential Commission on the Postal Service was created; its report was issued on July 31, 2003.

A significant number of the Commission's recommendations were incorporated into the 2006 Postal Accountability and Enhancement Act (PAEA). Unfortunately, many of the ills that faced the Postal Service in 2003 have continued to grow unchecked since then. The seriousness of the situation is suggested by the projection in the Commission's 2003 report that mail volume would decline to 181 billion pieces by 2017. The Postal Service now projects that mail volume will have declined to approximately 180 billion pieces in FY 2009—that is to say, over a period of six years rather than fourteen years, as predicted by the President's Commission. Clearly, volume decline has been much greater than anyone predicted in 2003. Yet the Postal Service continues to be required by law to serve an ever-expanding number of delivery points, and its ability to raise its prices by more than the general rate of inflation is constrained by both the PAEA and market forces.

The management and dedicated employees of the postal service are well aware of these difficulties. Thanks to the loyalty and tireless efforts of these individuals, the USPS reduced its costs by \$8 billion from 2002 – 2008 and is planning to reduce costs by an additional \$5.9 billion in 2009. In spite of these accomplishments, however, the Postal Service is projecting a loss of more than \$6 billion in FY 2009, and a cash shortfall of \$1.5 billion or more by the end of September 2009 – less than five months from now.

These sobering facts indicate that the Postal Service cannot remain financially self-sustaining for much longer under its current model unless it is given substantial freedoms to make changes in other areas. It must be allowed to take measures to

- (1) adjust its scope and scale to meet its volumes and revenues, including restructuring its logistics and its network of mail-processing facilities,
- (2) determine days for mail delivery,
- (3) maximize efficiency across the entire supply chain by expanding worksharing where mailers can perform a function more economically than the Postal Service
- (4) expand its use of automation where it can perform a function more economically, and
- (5) employ innovative pricing strategies where they promise to increase its competitiveness.

The Postal Service is much too important to the economy and the American public to be allowed to atrophy and fail.

So there is clearly much more work to be done. That work will require the commitment of USPS management, the Postal unions, the mailing industry, the Postal Regulatory Commission, and Congress. Some of the choices facing us will not be without pain. We are all going to have to make some sacrifices. To that end, PostCom has several recommendations concerning network adjustments, the frequency of mail delivery per week, worksharing, and automation.

Network Adjustments

Optimizing the current mail processing and logistics network will require difficult but necessary choices. This system was built in an environment of annual volume increases and a rate setting process that required significantly less emphasis on cost control. The Postal Service is now operating under a new set of parameters that include declining mail volume, expanding delivery points, and a CPI based rate cap.

Mailers feel very strongly that the Postal Service must adjust its network to match today's volume and service requirements. Such a network adjustment could have a negative impact on service, because the Postal Service will need to spend more time consolidating mail to build efficient loads and truck dispatches will be less frequent. PostCom members are willing to accept service adjustments if the net result is a commensurate reduction in overall Postal Service costs and an increased effort by the Postal Service to expand its use of private sector resources when they can be used to

improve cost-efficiency and consistency of mail service (more on this below). The key for those of us who make up a substantial part of the business mailing industry is consistency. As long as service remains predictable and reliable, businesses can adjust their printing and mailing dates to compensate for any adjustments.

In the past, difficulties with even modest network realignments have arisen because of local and what we believe to be purely short-sighted objections. Given the Postal Service's perilous financial condition, we hope that the Postal Service's current efforts to streamline the network and reduce costs will not be thwarted by the parochialism that has impeded similar efforts in the past.

Frequency of Mail Delivery

The frequency of mail delivery is another issue where the mailing industry is willing to put skin in the game. PostCom understands that the Postal Service does not have many opportunities that could result in a savings of \$3.5 billion. We also accept the fact that volume is declining and may never return to prior levels. Desperate times call for desperate measures and the time has come to match delivery days to the volume. PostCom members recommend this course of action even though many PostCom members have business plans that depend on six-day delivery. No matter which delivery day is eliminated, some company or industry's ox will be gored. However, the dire straits in which the Postal Service now finds itself require that mailers work with the Postal Service on developing a delivery day solution. The end result undoubtedly will inconvenience many in the industry, and be costly to some, but may be required to ensure the survival of the Postal Service. We also realize that reducing delivery by one day per week is a decision that cannot be made by the mailing industry and the Postal Service alone, but requires the acquiescence of Congress. We urge you to give the need for this measure serious consideration.

Worksharing

The Postal Service has another very important tool at its disposal for making appropriate adjustments to the scope and scale of its mail-processing system: worksharing. Worksharing enables mail services to be provided at the lowest combined cost of the mailers and the Postal Service. To achieve this result, rate differentials for functions that both the Postal Service and the private sector can perform must be set at a level that reflects the improved postal efficiencies permitted by worksharing and the marketplace realities of demand for worksharing services.

If the Postal Service can perform certain mail processing and/or transportation functions at the lowest cost, those functions should be performed by the Postal Service. If a mailer can perform those same functions at a lower cost, then the mailer should

perform them. Inducing mailers to perform worksharing functions allows the Postal Service to avoid performing work that others can perform at a lower cost. This type of sensible business-like behavior is needed now more than ever, and PostCom strongly recommends the continuation and expansion of worksharing incentives.

Automation

PostCom member companies have made significant investments in automating processes and improving productivity. The Postal Service is also pursuing an automation strategy and has had great success in improving the lettermail processing operation. Similar efforts are underway to improve the processing of flat shaped mail including magazines, catalogs, and large First Class envelopes. PostCom applauds these efforts, so long as they are aimed at achieving the lowest combined costs across the entire mail supply chain and are not merely shifting costs upstream in the supply chain to mailers and/or mail service providers.

Other

On May 7, 2009 the Postal Regulatory Commission granted the Postal Service permission to sell unutilized capacity on its trucks. The Commission has also opened a docket on "Summer Sale" prices that are designed to generate more mail volume in the summer, the Postal Service's lowest volume period. PostCom fully supports both concepts and notes that these creative ideas represent fresh thinking that has long been absent in the Postal Service's revenue generation efforts.

PostCom also appreciates the efforts of the Postal Regulatory Commission and their openness to new concepts. These efforts may not always be successful but their development and evaluation is a step in the right direction. The Postal Service must not be afraid to fail in these tests and the Postal Regulatory Commission, Congress, and the mailing industry must provide the latitude that allows either success or failure.

PostCom would be remiss if we did not mention the need for a restructuring of retiree health care cost funding. Each year, in addition to \$2 billion to cover current retirees, the Postal Service pays over \$5 billion to prefund future retiree health care costs. This \$7 billion annual obligation must be covered by current postage rates, and in the current economy this burden is oppressive. To address this issue, Congressman John McHugh has introduced HR 22 and 299 members have signed on as co-sponsors of this bill. HR 22 is not a bailout but rather an extension of the current payment schedule that will allow both the Postal Service and the mailing industry to recover from the effects of the recession. PostCom is fully aware of the mailing industry's responsibility to fund the retirement costs of the postal employees who have reliably delivered our products throughout their careers.

Summary

PostCom's members depend on a reliable and affordable Postal Service. Given the perilous state of the USPS finances, neither Congress, the Postal Service, postal unions, nor mailers can avoid these issues any longer. Substantive changes must happen very quickly or the Postal Service as we know it may not survive.

Once again, PostCom appreciates the opportunity to participate in this hearing and looks forward to working with Congress and the Postal Service on any reform efforts.

Mr. LYNCH. Thank you.

Earlier today we had an opportunity to hear from the Postal Service, the Postal Regulatory Commission, we had a couple of the unions in—the American Postal Workers Union and the Mail Handlers—and also we had Mr. Goff testify from the Postal Supervisors. You are the first today who will actually testify as customers of the Postal Service, and I would like you—I know you were all present during the previous testimony and you have handled this issue for quite a while. Let me ask you to provide the committee with testimony regarding what you think the priorities should be. We are looking at, reducing costs to the Postal Service and trying to restructure the Postal Service so that its viability is assured.

So if you have any thoughts on the order of priority where you think we should look for those savings, obviously in a way that minimizes its impact on your constituency businesses, but also if you think there are services that could be offered that could generate revenues that might alleviate some of the pressure we are feeling right now from a decrease in volume, I would like to hear your thoughts on where do you think Congress should look as areas of priority in trying to accomplish our goal here, which is to save the Postal Service.

Mr. Conway.

Mr. CONWAY. Thank you. In terms of the cost structure and the reduction of the costs, as I said in my written statement, the infrastructure of the Postal Service was built for a massive mail volume that no longer exists. At its peak in 2006, the Postal Service handled 213 billion pieces of mail. Few doubt the total volume will ever top 200 billion again.

The excess capacity of the network has been built over many, many years, and if you recall, Mr. Chairman, prior to 1970, the Postal Service was under the control of the U.S. Congress, and during those years a lot of decisions about where to place facilities and so on were made by the Congress. As a result, you look at the total picture of the Postal Service imprint and you can see the political influence on the system. Not to say that is necessarily bad, but you can see it. It also reflects the importance of the post office and the postal system to America and to the Congress.

Going forward, the need for people like ourselves and the people with a stake in the postal system to help inform the American public and the U.S. Congress about this severe problem to get an understanding and get perhaps a little more flexibility that is needed to make these changes I think would be extremely helpful.

As far as new products and services, the summer sale—most in the mailing community have applauded this initiative. I think most have felt it was long overdue. But it is just the start, and I think there needs to be a whole lot more creativity within the Postal Service, and it can't come fast enough. I also think the Congress might want to consider the absolute restrictions that now exist on what the Postal Service can do. As a necessary government function, the Postal Service is everywhere in this country. It has a delivery network that is superb. I think the Congress might want to consider what kinds of things the Postal Service is well suited for that it could provide the American people that perhaps is not being

provided by the private sector or perhaps could be done more efficiently by the Postal Service than is being done now by other government agencies.

Mr. LYNCH. Thank you.

Mr. McLean.

Mr. McLEAN. I would like to make three points, Mr. Chairman. First of all, in terms of long-term solutions, assuming that H.R. 22 is approved—and that is a large assumption at this point, I recognize, but, long-term everything has to be on the table, from operations to compensation. Mailers recognize that and we are willing to make concessions that would ensure the future vitality of the Postal Service.

Once the recession begins to subside and the economy rebounds, issues such as work sharing will become much more important. It is very important that we try to find more ways to bring more mail into the system. The Postal Service has fixed costs that are going to require to spend a certain amount of money making a delivery to your home, whether they deliver one piece of mail or 10. Work sharing can ensure that more mail is delivered to every household. That will help reduce the cost of delivery per piece, and that will help ensure that the Postal Service can return to a more positive financial situation.

Third, I would suggest that we find ways of making postal products more available to folks. In Mr. Galligan's testimony, he noted the fact that you can now buy postage stamps in thousands of supermarkets around the country. Stamps are one thing; postal products are another. If you go into most post offices today, there is no longer a vending machine where you can buy more than just stamps or more than just a first class postage stamp. Wouldn't it be great if you could go to the grocery store and there would be a kiosk where you could mail a package, weigh it, get the postage that you need, and wouldn't involve the salary of a single postal employee?

Greater use of technology and other ideas that would help make it more accessible to get to the Postal Service, reducing lines on Saturday, which are very long at the post office where I live in Arlington, VA, would be a positive way of ensuring that people continue to use the post office and perhaps of increasing revenue in ways that are unavailable today.

Mr. LYNCH. Thank you.

Mr. O'Brien.

Mr. O'BRIEN. Mr. Chairman, I think if you are looking for a game plan for moving forward, I would like to suggest first considering the short-term relief on H.R. 22, and whether the scope of that is 2 years or 8 years, or whatever Congress elects to pursue, that is really up to you and scoring here. But we as mailers don't want to see the Postal Service default on its payment to Treasury, and we are very concerned about what happens if they make a withdrawal of \$3 billion on September 30th and then another \$3 billion on October 1st. Where is that going to put us mid-2010? We are in a world of hurt. So I think we ought to put that issue aside and try and resolve that as step No. 1.

Step No. 2, networks. The Postal Service, we should give them the flexibility to modify their networks right now. Let them run

with that. I will give you an example of what happened when they messed it up. They pursued a closing of a facility out in Long Beach, CA, and that facility went awry. The service fell off the table and mailers screamed, and we went to the Postal Regulatory Commission, we went to the Postal Service. This system will self-monitor. The Postal Regulatory Commission is watching service like a hawk right now, so I don't think we need to worry too much about them going down the wrong path if we give them the flexibility to adjust their network. So I would say that should be the second step.

The third step is, as you pointed out earlier, a 5-day a week delivery, and 5 day a week delivery is a big ticket item for the Postal Service. They can save a lot of money, but it is going to affect people's businesses, and I will give you an example. Our business, Time magazine, gets affected more than anybody else. We deliver 77 percent of Time magazine on Saturday today. So I have met with—

Mr. LYNCH. I am sorry, say that last part again. I am sorry, Mr. O'Brien.

Mr. O'BRIEN. Seventy-seven percent of Time magazine gets delivered on Saturday.

Mr. LYNCH. Really?

Mr. O'BRIEN. Yes. We built our whole business around getting magazines to people so that they have them on the weekends, because they sit on your nightstand Monday through Friday, and then on the weekend is when you have the time to read the magazines. So we have kind of built our business that way. We actually changed the schedule for Time magazine a number of years ago.

So we are going to get hurt worse than anybody, to be honest with you, with the loss of Saturday delivery. But I think those are the kinds of sacrifices that we all are going to have to make. We ask the unions to make sacrifices. We are asking you to swallow a bitter pill here with your constituencies to say we are allowing facilities to close, we are allowing Saturday delivery to go away.

We also look around the world and we also recognize it is not the end of the world. Canada Post does 5 day a week delivery. I believe we are the only postal service in the world that does 6 day a week delivery. So we may not be that different from everybody else in the future. We still do business in Canada with 5 day a week delivery; people adjust, consumers adjust. So I think we can get there, but as you pointed out earlier, we need to understand the numbers, we need to understand the impact, and once we have that information, mailers and the Postal Service and the American public will get behind that.

You pointed out your family here, letter carriers are in your family. I think letter carriers will appreciate having Saturday and Sunday off in the long-term. So it is not the end of the world here, we just have to make sure we do it right. So if I had to prioritize the three issues going forward, relief on the finance, mail facility closings, adjusting the network to match the volume, and then finally looking at the delivery days.

Mr. LYNCH. Thank you. Since you all mentioned the issue of 5 day delivery, there were some concerns raised at the earlier panels. Again, the savings estimates are greatly varied. I think one report

came in at \$1.9 billion, another one at 3.4 or something like that. So there is a pretty wide variance, and I think the committee needs to get a good accurate picture. As a matter of fact, we may look at H.R. 22, if that gets marked up in a couple of weeks, commissioning a study to see what the real savings might be.

I thought Mr. Hegarty of the Mail Handlers Union raised a great point about the fact that there are 10 Federal holidays, the majority of which end up on a Monday. If you have no service on Saturday, Sunday, Monday for those seven or eight holidays that end up falling on a Monday, you have a pretty good block of time there where folks don't get their mail. That is a problem, so we need to figure that out. And I don't know if we actually build a calendar of certain Saturdays that continue to be delivered. We have to look at that more closely.

This all just points out the need for a little deeper thought on this. Mr. Conway had the opportunity to come into the office yesterday and speak to me about some of the needs that he foresaw or that others raised, the issue for those who absolutely have to have delivery on Saturday. Time may not be in that category, but there may be a priority option for some of those folks, I don't know, hospitals. I am just trying to think of those constituencies that we have not heard from might be offered that option. It would have to be paid for, but under those terms we could probably find that acceptable.

The other issue that was raised is the ability to retain business. If you leave that gap, as each of you has signified, of now you are going to have a couple days, Saturday and Sunday, somebody is going to fill that void, it may be UPS, it may be FedEx, but it may cause further deterioration in postal business, and I am concerned about that. I guess that will all be built into that number when they tell us what our savings will be, because there will be some spoilage by losing the business that might have been done on Saturday, but that will go away if we discontinue this practice.

Talk to me about that, specifically about the issue of 5 day delivery and what it would mean to some of your constituency businesses; none of the other stuff, just the 5-day delivery.

Mr. Conway.

Mr. CONWAY. Yes, sir. Well, nonprofits in this country range from very, very large to very, very small; they are all over the lot. Their function vary, all certain worthy ideals, and their business models vary greatly throughout the country. That said, there most certainly are many nonprofits that will tell me that Saturday is extremely valuable, perhaps the most valuable day of mail delivery for them, and that may well be the case.

There was a recent survey done by the Nonprofit Times, which is one of the leading nonprofit publications in the country, about mail delivery, and the question posed to nonprofits was if there had to be the reduction of a day, which day would be less impactful on nonprofits. The overwhelming selection by nonprofits in that survey was Saturday. Saturday was the least impactful.

The most impactful day, interestingly, that folks said they couldn't do without was Monday; and that is owing to a lot of things, partially because nonprofits tend to operate like most organizations, with a 5-day work week. So if, say, Tuesday were de-

leted, you would have your staff in on Tuesday, but they would have no mail delivery, they would have nothing to work on; it would create a problem. With Saturday, most nonprofits, not all, but most, their business plan now is not modeled there.

I think, of nonprofits at large, that Saturday would be the least harmful to our community.

Mr. LYNCH. Mr. McLean.

Mr. MCLEAN. For my members, because of the size and breadth of our organization, I have members for whom Saturday delivery is extremely important, including magazine publishers. I have others for whom Saturday is something that they could live without. So I have members that fit into everything. Some prefer that it would be Monday as the day off, some would prefer it be the middle of the week when the Postal Service would not deliver. So I am not going to be able to offer you consensus on that.

For my members, what would be important is that any change like this would reduce the Postal Service's fixed costs. If it does that, it is going to help keep down postage. If it keeps down the price of postage, everybody is going to be in support of it. Also, it is very important how this is done. We have not had detailed discussions with the Postal Service about exactly how they would design such a program, and I don't think the Postal Service has done that because they are looking for a lead from you, Mr. Chairman, in terms of what Congress's approach to this is going to be, because without your support, this discussion doesn't go anywhere.

As long as we are part of the discussion in terms of planning it, as long as there is an opportunity to participate in the design of it, I think a lot of my members would eventually get behind it, but we would like to know more details. That is only going to happen if we can get a sign from you that this is something that you would seriously consider, because, we have to go after the fixed costs. When more than 80 percent of your expenses are from labor and you can eliminate a lot of labor costs by eliminating a day of delivery, it is something we seriously have to consider.

Mr. LYNCH. OK.

Mr. O'Brien.

Mr. O'BRIEN. Mr. Chairman, as Bob indicated, everyone has a different preferred day to eliminate, and within PostCom, we have members such as large banks. Bank of America is a member of PostCom, and they would like to keep cash-flow moving. They don't want to allow any day to go by the wayside, and that is understandable. Weekly magazine publishers don't want Saturday to go away. But I think what we can do going forward is find solutions to that problem. There may be alternatives.

Medco, the pharmaceutical company that distributes drugs, is a PostCom member. Medco doesn't want their consumers to wait 3 days to get Medco delivered. So I think we have to look at alternatives to just no Saturday. I think there are alternatives. If you look at United Parcel Service today, they do offer Saturday delivery at a premium. There are ways to work around these things, so I don't think it has to be as ice cold as people may think.

Mr. LYNCH. I get the impression from all the testimony today that there needs to be much more discussion about this. This needs to be very thoughtful. And I am not entirely convinced at this point

that the savings are there or that the blanket elimination of Saturday delivery would produce the desired effect.

Let me ask you, for some of this mail volume that we are seeing a decline in, obviously it is as a result of the recession, if you follow first class mail—I know this is not necessarily your forte—we have seen decline for a number of years, and it is the same trend, and that is a big money maker for the Post Office.

We are trying to match the structure and organization of the Post Office to respond to demand. What do you see over the next 2, 3 years? I am hearing that 2010 could be just as bad, if not worse, as 2009, which would be dreadful. But going forward, what do you see in terms of the trend for mail volumes and how do we match up with that? Because we have this crisis we are dealing with now, but I see some issues down the road a little bit.

Why don't we start with Mr. O'Brien?

Mr. O'BRIEN. Sure. I have to tell you, no one has a crystal ball on this, unfortunately. I mean, if you pick up a copy of Time magazine today, it is pretty thin, and we don't know when our advertising is going to come back, and no one knows. So what we do have a feeling of is that some of this volume that has gone away, companies are gone. Conde Nast recently shut down Portfolio magazine. It is gone. So we know that is not coming down. Will other businesses pop up in the future? Sure. But I think we have a situation here where neither the Postal Service nor the mailers know what is going to happen down the road, and I really wish we did.

So I can't give you a solid answer on when is the volume going to come back. What I can tell you is I give a lot of presentations on the Postal Service to industry associations and groups, and things like that, and I always survey the members of the audience, and I ask them how many of you pay your bills electronically. Invariably, nowadays, about 70 percent of the people in the room say I pay my bills electronically.

And I ask them how many of you receive your bills electronically, and maybe 10 percent put their hand up. I think there is a big difference right now. People still want the hard copy, so I don't think that first class volume is going to go away as fast as you think. I think the big chunk is gone right now in the payment part of it, but I think the outgoing bills are still going to stick around for a while.

I also have to tell you the Postal Service is really trying to do something about volume. Last year they hired someone by the name of Bob Burnstock. I don't know if you have met him or heard about him, but he came from private industry, and Burnstock used to be the CEO of Scott's Miracle Grow. So he came from private industry; he knows how business operates and he is very creative. He and his team were the ones who came up with the summer sale. I think there is going to be a lot more creativity down the road with that kind of person onboard.

Mr. LYNCH. OK.

Mr. McLean.

Mr. MCLEAN. In terms of the Postal Service's future, I think it is important to remember there are two categories of customers in general, there are those who have to use the Postal Service and there are those who choose to use the Postal Service. The number

who have to use the Postal Service is declining, and that may continue to be the case as documents are now permitted legally to be transmitted by email, by fax and other means. And as Mr. O'Brien noted, there are an increasing number of people who pay their bills online.

But in terms of the group that choose to use the Postal Service, I always like to talk about my brother. My brother ran a restaurant in Memphis, my hometown, for a number of years. My brother did not need and could not afford television advertising, radio advertising, Internet advertising, because it reached the wrong people, it reached too many people, and it was too expensive. But the Postal Service was a terrific marketing alternative for him because it could be narrowed down not just to the zip code, but to the few blocks around his neighborhood restaurant. It was the perfect marketing tool.

For many businesses in this country, the Postal Service is something they choose to use because it offers that affordability, that limited reach, and as long as we can keep postage prices down, as long as we can keep them affordable, along with the cost of printing and the cost of paper, many people are going to continue to use the Postal Service.

In the association that I manage, the Mailers Council, we have once again returned to sending invoices for membership by mail. One of the reasons why is because many people look at emails, they don't necessarily read them intently, they don't necessarily act on them. And for a number of businesses, not just my association, mail continues to be the device that ensures that people act the way you want them to; buying your product, buying your service, voting, whatever it might be. It continues to be an incredibly effective communication tool.

If we can keep it affordable, we will keep the mail in there. That will help ensure that there is sufficient volume to keep those fixed costs spread out over enough pieces of mail that the Postal Service can continue to operate. But without keeping postage affordable—and that means reducing the fixed costs, which is operations, the size of the network, and what we pay to employees—the Postal Service will no longer be an effective and affordable communications tool, and it will go by the wayside.

Mr. LYNCH. Mr. Conway.

Mr. CONWAY. Yes, sir. Mail volume is an interesting phenomena. It is now, obviously, in major decline, but the decline of the most crucial part of mail volume, first class mail, started long before this economic downturn. First class mail has funded the basic growth of the Postal Service infrastructure forever. It makes the most contribution to the overhead costs of the Postal Service, which are extensive. It has basically paid the bills for the last couple hundred years.

With that mail volume declining, I don't see it coming back. I think the decline that has started gradually in the last 5 or so years will continue. Some say it will accelerate, some say it may taper off, but I think it will continue.

And that leaves you with how do you grow the necessary volume to make up for that loss. The rule of thumb for many years has been that standard mail, which is the highest growth volume prod-

uct now in the Postal Service, you need almost three pieces of standard mail to make up for the loss of one piece of first class mail. Standard mail is not growing that fast; I doubt it can grow that fast in the future. So there lies the financial dilemma.

Once the economy does stabilize, mail volume most certainly will come back to a certain degree, but it is the mix of mail volume that is the real critical problem. How do you replace that very lucrative product, the revenue that is lost there? I don't know that anyone in the postal community has found an answer to that. Unless someone does, we just can't afford to fund this massive structure anymore as we have, unfortunately.

Mr. LYNCH. Earlier today we did hear from the earlier witnesses that there has been a freeze on constructing new post offices and a freeze on hiring, so I think they get the message. But for many, many years, as you have stated, we just went on a building spree in this country of post offices, to the point where we have 36,000 of them now. And as chairman of this committee, it seems like every week I am naming a new post office. I honestly believe we will run out of names before we run out of post offices. [Laughter.]

But this is a paradigm shift. We are changing the model of this to allow it to survive. I think the flexibility is important, it is just that the Postal Service is one of those constants in our life that, when it changes, as it looks like it needs to change, it upsets a lot of people. So we have to sort of bring people along, let them know what the problem is and let them be reassured that this is to preserve that universal service that they enjoy so much.

I am sure that I did not exhaust all of the important areas of inquiry with my questions, so what I would like to do is give you each an opportunity, say 3 minutes. If there are certain points that you think I have missed or that need to be emphasized, please take that opportunity. Anything that you think may not have been raised at today's hearing in your panel or a question that might not have been properly addressed in one of the other panels, please feel free to raise it now.

In fairness to my colleagues who are in markups in other committees, I am going to allow them to ask any questions of you in writing and welcome your responses as well.

Mr. Conway.

Mr. CONWAY. Well, Mr. Chairman, I would like to first just thank you for taking on this very, very tough task. Your leadership on what is an incredibly difficult political issue is needed going forward, and I think it is going to be incumbent on my organization and everybody with a stake in the Postal Service to support your efforts.

I know what you face. I have been around the postal political scene for nearly 40 years, and you are going to hear it from both sides of the aisle. But you are doing the right thing. You are taking on this issue, I think, in a very fair manner, and we will pledge to continue to support you as necessary changes are made.

Mr. LYNCH. Thank you, Mr. Conway.

Mr. McLean.

Mr. MCLEAN. Mr. Chairman, my mother comes from Lucy, TN. I have a sister in Poteau, OK, another sister in Lexington, VA, and one in Louis, DE, and there is not a UPS, FedEx, Kinkos, Minute-

man Copier, or other place where you can ship things; you have to go to the U.S. Postal Service. And there are Members of Congress that represent each one of those communities, and I am sure they are going to howl when they hear, because I don't think many of them have heard yet, what we are considering at this hearing today.

But what they need to understand and what we need your help explaining is that the Postal Service is an essential tool of business, not an optional one. For those businesses to reach the people who live in those communities in the future, the Postal Service has to be allowed to change, and H.R. 22 is a great first step in that direction, but additional legislation is going to be necessary.

So if we are going to keep the Postal Service in these communities where they are the only way of doing hard copy communication, we have to allow the Postal Service to remain affordable, and that is where we need your help, and we appreciate your having this hearing today as a first step in that direction.

Mr. LYNCH. Thank you, sir.

Mr. O'Brien.

Mr. O'BRIEN. Mr. Chairman, a couple things that we didn't talk about. Before 2003, a Presidential commission was created to study the Postal Service, and in 2003 they issued this report, "Enhancing the Future: Making the Tough Choices to Preserve Universal Mail Service." We haven't really discussed that at all. There are a lot of good thoughts in here. I would encourage the staff of this committee to review this document and see what they had to say, so that we don't have to reinvent the wheel.

I would like to reiterate both what Tony and Bob had to say, in that we appreciate your efforts here. I am incredibly impressed with the level of engagement of this subcommittee and your knowledge of the issues, as well as Minority Leader Chaffetz. It is very impressive.

We also want you to know that the Postal Service is not just a supplier to us; they are business partners. If they go under, all of our companies are gone, and we can't afford that to happen; and that is really at the crux of the matter here. We have all built our businesses on postal, and, as was mentioned earlier, one of the members of PostCom is the Alliance of Independent Storeowners and Professionals, very, very small people, your local hardware store and people like that; and they do exactly what Bob said, they saturate the mail delivery around their stores and that is how they stay in business. So we all need a healthy Postal Service and we commend you for taking action to help us achieve that.

Mr. LYNCH. Thank you. I appreciate your attendance here today. I do want to note I misidentified Mr. Goff. I said he was part of NAPS, the National Association of Postal Supervisors. He is actually with NAPUS, which is the National Association of Postmasters of the United States. So I apologize to Mr. Goff for that error.

Thank you very much for your willingness to help the committee with its work. As I said before, I am going to leave the record open in case my colleagues have questions further on on some of your comments. But thank you very much for your willingness to help us today. Thank you. Have a good day now.

[Whereupon, at 1:40 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

The following responses are provided to you as answers to questions for the record posed to the Postal Service following the May 20 oversight hearing.

Questions from Congressman Kucinich:

1. Which postal facilities will be reviewed for possible closure? Which aspects of the facility's operations will be examined?

Response: We have asked our 74 District Managers to review the operations of more than 3,000 station and branch offices that report to Postmasters in the 396 cities listed in the attached. An initial prescreening process is underway to identify the specific stations and branches that will be studied for possible consolidation. The District Managers have been asked to provide us feedback by June 30, 2009. The Postal Service will be looking at all aspects of facility operations, including consolidation of carrier operations as well as retail activities. In making our decision we will examine many factors including customer needs, impact on employees, potential cost savings, real estate values, lease costs and expiration dates.

2. If each of the facilities on the list for review was closed, how much money would the USPS save per year?

Response: The Postal Service does not anticipate consolidation of all of these facilities; however they represent a total operating expense of over \$15 billion annually. Of this amount, sixty percent of the cost is estimated to be associated with delivery operations. The remaining amount covers clerk distribution, retail, custodial and management assignments as well as non-personnel costs such as rent and utilities. The consolidation of some of these facilities represent a "*yet to be determined*" amount of savings for the Postal Service.

3. Who will be (or was) involved in deciding which postal facilities would be examined? How were those people chosen? Who will be involved in conducting the review and what will their roles be?

Response: We have a long-standing process that is used by our local districts when operations are reviewed for possible consolidation. The District Manager provides the authorization to begin a study. The process starts at the local level and includes a review of the business activities, community input, and development of a proposal that addresses responsiveness to community postal needs, affect on the community, affect on employees and the potential for savings. Local cross functional district teams have been established to review and study the business activities of each unit and make a recommendation to the District Manager on whether consolidation is warranted. These teams will gather various data relative to the business activity of that unit. The study allows for and will consider customer input, facility

evaluation factors, socio-economic factors, retail factors such as wait time in line, walk in revenue, retail transactions per hour, and proximity to other retail units and alternate access points.

Will citizens who rely heavily on postal services, such as seniors, have representatives in the review process with decision making authority?

Response: Their voice will be heard through the community input process utilized at the local District level.

Will employees have representatives in the review process with decision making authority?

Labor Union and Management Organization Leaders have been notified by letter of the intent to study these stations and branches. They will be consulted during the review process, consistent with the requirements of our collective bargaining agreements and will they will be notified of our final determination.

4. In his testimony, Dale Goff suggested multiple cost cutting and revenue generating ideas. Are they being considered?

Below are the responses to revenue generating ideas mentioned in Goff testimony.

- **Eliminate Mystery Shopper Program.** As one of the largest retailers in the United States, it is necessary for the Postal Service to use retail best practices comparable to the private sector. The Mystery Shopper Program is an effective, objective measurement of our customer retail experience. The Postal Service has no plans to discontinue the Mystery Shopper Program in the immediate future as it could negatively impact our ability to provide effective service to our customers. In addition, discontinuing the program could jeopardize our ability to grow retail revenue. During our annual program budget reviews, we will continue to examine costs savings opportunities that may exist with current shopper contracts.
- **Pare Down Postal Districts beyond the six already targeted:** We are pursuing additional consolidation activities even beyond the district level of our organization. Further incremental structural adjustments will be made in the near future. Obviously span of control and the need to avoid disruptive changes are major considerations when making structural adjustments in an enterprise as massive as the U. S. Postal Service.

- **Negotiate with Union on cross-craft training:** Our collective bargaining negotiations commence next year with some of our unions. The notion of cross-craft training may be considered at that time. However, until such time, we will continue to comply with the current collective bargaining agreements.

- **Exploit national retail footprint to partner with other government entities—national, state and municipal and associate with complementary private sector endeavors:** The Postal Service has had a long standing relationship with the Department of State (DoS) in support of the Passport Application Program. The Postal Service accepts passport documents on behalf of U.S. citizens and routes the paperwork to DoS for processing. This has been a very successful revenue generation partnership for the Postal Service. We are exploring partnerships with other government agencies that could leverage our retail capabilities in an attempt to bring in additional revenue, extend the reach of government services to the general public, and enhance the USPS infrastructure to better provide existing and new services to our customers.

- **Vending Comments:** We are continuing the planned removal of obsolete vending equipment. The plan was necessary because units can no longer be maintained because spare parts are not available. The phased removal of vending began in 2007. Replacement has been provided in some locations through the deployment of some of our 2500 Automated Postal Centers. We will continue to research the future use of kiosk technology to meet our customer needs.

Questions from Congressman Cummings:

1. In 2005, the Maryland Legislature passed an amendment to the Universal Electronic Transactions Act that recognizes the USPS Electronic Postmark (EPM) as a valuable addition to the security of the Internet and to make the Maryland economy more efficient. The Congress sanctioned the continued operation of the USPS EPM in the 2006 Postal Accountability and Enhancement Act with the understanding that the EPM would become part of the nation's electronic infrastructure. I understand that EPM will help provide a safer Internet for the public while providing a 21st Century revenue stream for USPS. In addition in 2008 the Postal Regulatory Commission, based on public need authorized USPS to continue EPM.

a) What resources and actions is USPS taking to work with the private sector to aggressively gain nationwide adoption of the EPM?

Response: Electronic Postmark® service (EPM) is a good example of a public/private initiative, with USPS providing the infrastructure and private vendors developing products tailored to specific markets. USPS senior management is currently evaluating how best to expand it. USPS currently offers EPM service through a licensing agreement with a private service provider - that model has been only nominally successful. However, USPS has recently re-evaluated the technology behind the product, in light of rulings noted above and based on emerging needs in online transactions and communications, and is actively pursuing new models that will support in those needs. It is our plan to meet with key parties very soon to determine what role(s) we can provide, how the various industries involved want us to participate, and how to bring that forward to the market quickly. It is clear, though, that USPS will not be able to act alone to obtain nationwide adoption. It will require a willingness by customers to adopt.

b) What applications, like email and other financial transaction authentication applications are being targeted to make the EPM rapidly available to our business community and eventually to the public?

Response: USPS is exploring a growing number of applications for Electronic Postmark® service. Securing email, authenticating electronic payments, verifying electronic financial and health records, and providing auditing event reports, are among the many applications identified where USPS EPM could be utilized. It is very likely that some applications are yet-to-be-invented. USPS executives have met or will be meeting with industry executives and officials at other government agencies to get their views on their needs, and how EPM could meet those needs. USPS' role is facilitating security, privacy, and integrity in communications, as it has quietly and successfully done with physical mail for over 200 years. USPS sees Electronic Postmark® service as an opportunity to extend that capability to electronic communications.

2. I am aware of the significant value that the USPIS brings to the physical mail but what criminal enforcement processes does USPIS have available to protect the Electronic Postmark and how will these be deployed?

Response: The U.S. Postal Inspection Service is the law enforcement and security arm of the Postal Service, and since the inception of the U.S. Postal Service it has been entrusted with the mission of protecting U.S. Postal Service employees, assets, products, and services. As the scope of this mission has evolved over the last 200 years, numerous federal statutes have been enacted which empower Postal Inspectors to investigate crimes that use or target the Postal Service. These legislative protections have served the citizens of America well in terms of secure, private, and trusted business and personal correspondence—ensured in part by a dedicated law enforcement entity whose sole mission is to enforce the governmental protections afforded by effective criminal statutes pertaining to the Postal Service.

The Electronic Postmark is another example of the Postal Service utilizing new and emerging technologies in its continuing statutory mission to bind the Nation together through personal, educational, literary and business correspondence of the people. As the Electronic Postmark is a Postal Service product which furthers this purpose, its protection against fraud and other misuse falls under the jurisdiction of the Inspection Service. Postal Inspectors maintain a physical presence in every State and an international investigative presence as well to ensure the integrity of the U.S. Mail. The Postal Inspection Service possesses the technical and investigative resources to properly protect the Electronic Postmark. In the event of criminal misuse or misrepresentation by means such as counterfeiting, there are a number of Federal criminal statutes which would be implicated including Title 18, U.S.C., §§ 1037, 1343, 2701, and 1028.

3. What concerns does the law enforcement group at USPIS have in protecting the Electronic Postmark?

Response: As with any emerging technologies, there are amendments and other changes which could strengthen existing Federal statutes which did not contemplate some of the newer technologies when they were originally enacted. The Postal Inspection Service is concerned that several existing Federal statutes may not fully encompass the intricacies involved with the Electronic Postmark. These issues can however be addressed through minor modifications to current sections, or by expanding the statutory definitions. For example, 18 U.S.C. § 501 (concerning U.S. Postal Service postage stamps, postage meter stamps, and postal cards), or § 503 (Postmarking stamps), could be amended to specifically include electronic communications bearing the USPS Electronic Postmark. Similarly, the venerable Mail Fraud Statute, America's first and arguably most effective consumer protection law, already includes language noting, "*any matter or thing whatever to be sent or delivered by the Postal Service*" which arguably encompasses electronic communications. Additional definitions or amendments would ensure appropriate statutory protections are in place to protect the Electronic Postmark. These statutory protections could also be enhanced by an amendment specifically granting primary law enforcement jurisdiction in these matters to the U.S. Postal Inspection Service.

STATE	Area	District Name	CITY
AK	WESTERN	ALASKA DISTRICT	ANCHORAGE AK
AL	SOUTHEAST	ALABAMA DISTRICT	HUNTSVILLE AL
			MOBILE AL
			MONTGOMERY AL
			TUSCALOOSA AL
AR	SOUTHWEST	ARKANSAS DISTRICT	FAYETTEVILLE AR
			FORT SMITH AR
			LITTLE ROCK AR
			NORTH LITTLE ROCK AR
AZ	WESTERN	ARIZONA DISTRICT	CHANDLER AZ
			FLAGSTAFF AZ
			GILBERT AZ
			MESA AZ
			SCOTTSDALE AZ
			SUN CITY AZ
			TEMPE AZ
			TUCSON AZ
CA	PACIFIC	BAY-VALLEY DISTRICT	BERKELEY CA
			CONCORD CA
			FREMONT CA
			HAYWARD CA
			OAKLAND CA
			RICHMOND CA
			SALINAS CA
			SAN JOSE CA
			SANTA CLARA CA
			SANTA CRUZ CA
			VALLEJO CA
		LOS ANGELES DISTRICT	BEVERLY HILLS CA
			INGLEWOOD CA
			LOS ANGELES CA
			REDONDO BEACH CA
			SANTA MONICA CA*
		SACRAMENTO DISTRICT	FRESNO CA
			MODESTO CA
			REDDING CA
			SACRAMENTO CA
			STOCKTON CA
		SAN DIEGO DISTRICT	CHULA VISTA CA
			EL CAJON CA
			ESCONDIDO CA
			FONTANA CA
			MORENO VALLEY CA
			OCEANSIDE CA
			RIVERSIDE CA
			SAN DIEGO CA
			SAN BERNARDINO CA2
		SAN FRANCISCO DISTRICT	PALO ALTO CA
			SAN FRANCISCO CA
			SAN MATEO CA
			SANTA ROSA CA
			SUNNYVALE CA
		SANTA ANA DISTRICT	ANAHEIM CA
			CORONA CA
			FULLERTON CA
			GARDEN GROVE CA
			HUNTINGTON BEACH CA
			IRVINE CA

STATE	Area	District Name	CITY
CA	PACIFIC	SANTA ANA DISTRICT	LA PUENTE CA
			LAGUNA BEACH CA
			NEWPORT BEACH CA
			ONTARIO CA
			ORANGE CA
			POMONA CA
			RANCHO CUCAMONGA CA
			SANTA ANA CA
			TORRANCE CA
			WHITTIER CA
		SIERRA COASTAL DISTRICT	SAN JUAN CAPISTRANO CA
			BAKERSFIELD CA
			GLENDALE PO CA
			LANCASTER CA
			NORTH HOLLYWOOD CA
			OXNARD CA
			PASADENA CA
			SAN FERNANDO CA
			SANTA BARBARA CA
			SANTA CLARITA CA
CO	WESTERN	COLORADO/WYOMING DISTRICT	THOUSAND OAKS CA
			VAN NUYS CA
			AURORA CO
			BOULDER CO
			COLORADO SPRINGS CO
			DENVER CO
			FORT COLLINS CO
			LITTLETON CO
CT	NORTHEAST	CONNECTICUT DISTRICT	PUEBLO CO
			GRAND JUNCTION CO
			BRIDGEPORT CT
			HARTFORD CT
			NEW HAVEN CT
DC	CAPITAL METRO	CAPITAL DISTRICT	STAMFORD CT
			WATERBURY CT
DE	EASTERN	SOUTH JERSEY DISTRICT	WASHINGTON DC
FL	SOUTHEAST	CENTRAL FLORIDA DISTRICT	WILMINGTON, DE
			NEWARK, DE
			BOCA RATON FL
			BOYNTON BEACH FL
			DELRAY BEACH FL
			FT PIERCE FL
			KISSIMMEE FL
			LAKE WORTH FL
			MELBOURNE FL
			PORT SAINT LUCIE FL
		NORTH FLORIDA DISTRICT	VERO BEACH FL
			DAYTONA BEACH FL
			GAINESVILLE FL
			JACKSONVILLE FL
			OCALA FL
			PANAMA CITY FL
			PENSACOLA FL
		SOUTH FLORIDA DISTRICT	TALLAHASSEE FL
			FORT LAUDERDALE FL
			HIALEAH FL
			HOLLYWOOD FL
			MIAMI BEACH FL

STATE	Area	District Name	CITY
FL	SOUTHEAST	SOUTH FLORIDA DISTRICT	MIAMI FL
			POMPANO BEACH FL
		SUNCOAST DISTRICT	BRADENTON FL
			BROOKSVILLE FL
			CLEARWATER FL
			FORT MYERS FL
			LAKELAND FL
			LARGO FL
			NAPLES FL
			PLANT CITY FL
			PUNTA GORDA FL
			SAINT PETERSBURG FL
			SARASOTA FL
			TAMPA FL
			VENICE FL
GA	SOUTHEAST	ATLANTA DISTRICT	ATHENS GA
			ATLANTA GA
			DECATUR GA
			LAWRENCEVILLE GA
			MARIETTA GA
		SOUTH GEORGIA DISTRICT	ALBANY GA
			AUGUSTA GA
			COLUMBUS GA
			MACON GA
			SAVANNAH GA
HI	PACIFIC	HONOLULU DISTRICT	HONOLULU HI
IA	WESTERN	HAWKEYE DISTRICT	CEDAR RAPIDS IA
			DES MOINES IA
			SIOUX CITY IA
			WATERLOO IA
ID	WESTERN	SPOKANE DISTRICT	BOISE ID
IL	GREAT LAKES	CENTRAL ILLINOIS DISTRICT	JOLIET IL
			NAPERVILLE IL
			OAK BROOK IL
			OAKLAWN IL
			PEORIA IL
			SPRINGFIELD IL
			AURORA IL
		Chicago DISTRICT	CHICAGO IL
		GATEWAY DISTRICT	QUINCY IL
		NORTHERN ILLINOIS DISTRICT	ARLINGTON HEIGHTS IL
			ROCKFORD IL
IN	EASTERN GREAT LAKES	KENTUCKIANA DISTRICT	SCHAUMBURG IL
		GREATER INDIANA DISTRICT	EVANSVILLE IN
			FORT WAYNE IN
			GARY IN
			INDIANAPOLIS IN
			LAFAYETTE IN
KS	WESTERN	CENTRAL PLAINS DISTRICT	SOUTH BEND IN
			TOPEKA KS
		MID-AMERICA DISTRICT	WICHITA KS
			KANSAS CITY KS
KY	EASTERN	CINCINNATI DISTRICT	SHAWNEE MISSION KS
		KENTUCKIANA DISTRICT	COVINGTON KY
			LEXINGTON, KY
			LOUISVILLE KY
LA	SOUTHWEST	LOUISIANA DISTRICT	ALEXANDRIA LA
			BATON ROUGE LA

STATE	Area	District Name	CITY
LA	SOUTHWEST	LOUISIANA DISTRICT	LAFAYETTE LA
			LAKE CHARLES LA
			METAIRIE LA
			NEW ORLEANS LA
			SHREVEPORT LA
MA	NORTHEAST	BOSTON DISTRICT	BOSTON MA
			CAMBRIDGE MA2
		MASSACHUSETTS DISTRICT	LAWRENCE MA
			LYNN MA
			SPRINGFIELD MA
			WORCESTER MA
MD	CAPITAL METRO	BALTIMORE DISTRICT	NEW BEDFORD MA
			FALL RIVER MA
			Baltimore MD
		CAPITAL DISTRICT	EASTON, MD
			Glen Burnie MD
			BETHESDA MD
ME	NORTHEAST	MAINE DISTRICT	GAITHERSBURG MD
			HYATTSVILLE, MD
MI	GREAT LAKES	DETROIT DISTRICT	ROCKVILLE, MD
			SILVER SPRING, MD
			PORTLAND ME
			ANN ARBOR MI
			DEARBORN MI
		GREATER MICHIGAN DISTRICT	DETROIT MI
			JACKSON MI
			WAYNE MI
			GRAND RAPIDS MI
			KALAMAZOO MI
		SOUTHEAST MICHIGAN DISTRICT	LANSING MI
			MUSKEGON MI
			SAGINAW MI
			FLINT MI
			MOUNT CLEMENS MI
MN	WESTERN	NORTHLAND DISTRICT	PONTIAC MI
			ROYAL OAK MI
			SOUTHFIELD MI
			UTICA MI
			WARREN MI
			DULUTH MN
			HOPKINS MN
			MANKATO MN
MO	GREAT LAKES	GATEWAY DISTRICT	MINNEAPOLIS MN
			ROCHESTER MN
			SAINT CLOUD MN
	WESTERN	MID-AMERICA DISTRICT	SAINT PAUL MN
			CAPE GIRARDEAU MO
MS	SOUTHEAST	MISSISSIPPI DISTRICT	INDEPENDENCE MO
			KANSAS CITY MO
			SPRINGFIELD MO
			GREENVILLE MS
			JACKSON MS
MT	WESTERN	BIG SKY DISTRICT	MERIDIAN MS
			NATCHEZ MS
			BILLINGS MT

STATE	Area	District Name	CITY
MT	WESTERN	BIG SKY DISTRICT	GREAT FALLS MT MISSOULA MT
NC	CAPITAL METRO	GREENSBORO DISTRICT	DURHAM NC RALEIGH NC WINSTON-SALEM NC GREENSBORO NC HIGH POINT NC
		MID-CAROLINAS DISTRICT	ASHEVILLE NC CHARLOTTE NC FAYETTEVILLE NC WILMINGTON, NC
ND	WESTERN	DAKOTAS DISTRICT	FARGO ND
NE	WESTERN	CENTRAL PLAINS DISTRICT	LINCOLN NE OMAHA NE
NH	NORTHEAST	NEW HAMPSHIRE/VERMONT DISTRICT	MANCHESTER NH
NJ	EASTERN	SOUTH JERSEY DISTRICT	CAMDEN NJ
	NEW YORK METRO	CENTRAL NEW JERSEY DISTRICT	TOMS RIVER NJ TRENTON NJ
		NORTHERN NEW JERSEY DISTRICT	ELIZABETH CITY NJ NEWARK NJ PATERSON NJ JERSEY CITY NJ
NM	SOUTHWEST	ALBUQUERQUE DISTRICT	ALBUQUERQUE NM CLOVIS NM LAS CRUCES NM SANTA FE NM
NV	WESTERN	NEVADA-SIERRA DISTRICT	HENDERSON NV LAS VEGAS NV NOR LAS VEGAS NV RENO NV
NY	NEW YORK METRO	NEW YORK DISTRICT	BRONX NY New York City NY
		TRIBORO DISTRICT	BROOKLYN NY FLUSHING NY LONG ISLAND CITY NY STATEN ISLAND NY JAMAICA NY
		WESTCHESTER DISTRICT	MOUNT VERNON NY WHITE PLAINS NY YONKERS NY
	NORTHEAST	ALBANY DISTRICT	ALBANY NY SCHENECTADY NY SYRACUSE NY
		WESTERN NEW YORK DISTRICT	BUFFALO NY ROCHESTER NY
OH	EASTERN	CINCINNATI DISTRICT	CINCINNATI OH DAYTON OH HAMILTON, OH TOLEDO OH
		COLUMBUS DISTRICT	COLUMBUS, OH ZANESVILLE, OH
		NORTHERN OHIO DISTRICT	AKRON OH CANTON OH CLEVELAND OH MANSFIELD OH YOUNGSTOWN, OH
OK	SOUTHWEST	OKLAHOMA DISTRICT	OKLAHOMA CITY OK TULSA OK

STATE	Area	District Name	CITY
OR	WESTERN	PORTLAND DISTRICT	BEAVERTON OR
			BEND OR
			EUGENE OR
			MEDFORD OR
			PORTLAND OR
			SALEM OR
PA	EASTERN	CENTRAL PENNSYLVANIA DISTRICT	ALLENTOWN, PA
			BETHLEHEM, PA
			HARRISBURG PA
			LANCASTER, PA
			READING PA
			SCRANTON PA
			WILKES-BARRE PA
			YORK PA
		ERIE DISTRICT	ALTOONA, PA
PR	NEW YORK METRO	CARIBBEAN DISTRICT	ERIE PA
			NORRISTOWN PA
			PHILADELPHIA PA
			PITTSBURGH PA
			PITTSBURGH DISTRICT
RI	NORTHEAST	SOUTHEAST NEW ENGLAND DISTRICT	CAROLINA PR
			Ponce PR
			SAN JUAN PR
SC	CAPITAL METRO	GREATER SOUTH CAROLINA DISTRICT	PAWTUCKET RI
			PROVIDENCE RI
			CHARLESTON SC
			CHARLESTON, SC
			COLUMBIA SC
			GREENVILLE SC
SD	WESTERN	DAKOTAS DISTRICT	MYRTLE BEACH SC
			SPARTANBURG SC
			RAPID CITY SD
TN	SOUTHEAST	TENNESSEE DISTRICT	SIoux FALLS SD
			CHATTANOOGA TN
			CLARKSVILLE TN
			JACKSON TN
			JOHNSON CITY TN
			KNOXVILLE TN
			MEMPHIS TN
			MURFREESBORO TN
			NASHVILLE TN
			OLD HICKORY TN
TX	SOUTHWEST	DALLAS DISTRICT	DALLAS TX
			GARLAND TX
			IRVING TX
			LEWISVILLE TX
			MESQUITE TX
			PLANO TX
			TEXARKANA TX
			TYLER TX
		FORT WORTH DISTRICT	ABILENE TX
			AMARILLO TX
			ARLINGTON TX
			DENTON TX
			FT WORTH TX
			LUBBOCK TX
		HOUSTON DISTRICT	WICHITA FALLS TX
			BEAUMONT TX
			BRYAN TX

STATE	Area	District Name	CITY
TX	SOUTHWEST	HOUSTON DISTRICT	HOUSTON TX
			HUMBLE TX
			KATY TX
			PASADENA TX
			SPRING TX
		RIO GRANDE DISTRICT	AUSTIN TX
			BROWNSVILLE TX
			CORPUS CHRISTI TX
			EL PASO TX
			KILLEEN TX
			LAREDO TX
			MCALLEN TX
			MIDLAND TX
			SAN ANTONIO TX
			WACO TX
UT	WESTERN	SALT LAKE CITY DISTRICT	OGDEN UT
			PROVO UT
			SALT LAKE CITY UT
VA	CAPITAL METRO	NORTHERN VIRGINIA DISTRICT	ALEXANDRIA VA
			ARLINGTON VA
			FAIRFAX, VA
			SPRINGFIELD VA
			WOODBIDGE, VA
		RICHMOND DISTRICT	CHESAPEAKE VA
			HAMPTON VA
			NEWPORT NEWS, VA
			NORFOLK VA
			RICHMOND, VA
			VIRGINIA BEACH VA
	EASTERN	APPALACHIAN DISTRICT	ROANOKE, VA
			BRISTOL, VA
WA	WESTERN	PORTLAND DISTRICT	VANCOUVER WA
		SEATTLE DISTRICT	AUBURN WA
			BELLEVUE WA
			EVERETT WA
			KENT WA
			OLYMPIA WA
			RENTON WA
			SEATTLE WA
			TACOMA WA
			YAKIMA WA
		SPOKANE DISTRICT	SPOKANE WA
WI	GREAT LAKES	LAKELAND DISTRICT	GREEN BAY WI
			KENOSHA WI
			RACINE WI
			WAUKESHA WI
WV	WESTERN	NORTHLAND DISTRICT	LA CROSSE WI
	EASTERN	APPALACHIAN DISTRICT	CHARLESTON WV

Responses to Post-Hearing Questions for the Record
Nip and Tuck: The Impact of Current Cost Cutting Efforts on Postal Service Operations and Network
May 20, 2009 Hearing
Subcommittee on Federal Workforce, Postal Service, and the District of Columbia
Committee on Oversight and Government Reform
House of Representatives

Questions for the Record Submitted by Representative Issa

1. In prior testimony, you asserted that the GAO prefunds its retiree health benefits and stated that the USPS was not the only one doing so. However, isn't it true that the GAO only calculates the liability and report in its annual financials?
2. Isn't that significantly different from actually writing the check to prefund the liability?
3. So, is the USPS in fact the only federal entity currently prefunding its retiree health benefits as has previously been asserted?

Like other federal employees and retirees, GAO employees and retirees may participate in the Federal Employees Health Benefits Program (FEHBP), which is administered by the Office of Personnel Management (OPM). In preparing its financial statements in accordance with federal government accounting standards, GAO is required to, and does, recognize the estimated future cost of postretirement health benefits for its employees on its annual financial statements. Because OPM receives appropriated funds to pay the government's share of retiree health insurance premiums, GAO does not need to set aside funds appropriated to it for this purpose.

USPS employees and retirees may also participate in the FEHBP. However, USPS is an independent establishment and operates under a fundamental principle that it be financially self-supporting. Congress, with the enactment of P.L. 109-435, required the USPS to make payments into a separate fund, administered by OPM, to fund its share of its retirees' health costs. This will help ensure that funds will be available to pay for these benefits of USPS retirees with revenue generated from ratepayers, and not taxpayers. We do not know if USPS is the only federal entity currently prefunding its retiree health benefits, but unlike large cabinet-level agencies in the executive branch that are funded through appropriations, USPS generates nearly all of its revenue from products and services.